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By

Michael Charles Morton

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**Engaging Iran: A Study of Modifying the United States of America's
Foreign Policy Towards the Islamic Republic of Iran.**

By

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Thesis

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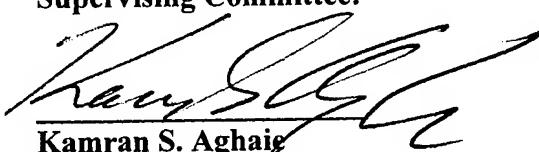
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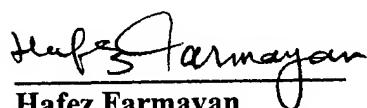
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**Approved by
Supervising Committee:**



Kamran S. Aghaie



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For my wife, Anita.

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Abbreviations

Anglo-Iranian Oil Company	AIOC
Biological Weapons Convention	BWC
Central Intelligence Agency	CIA
Chemical Weapons Convention	CWC
European Union	EU
Gulf Cooperation Council	GCC
International Atomic Energy Agency	IAEA
Iran-Libya Sanctions Act	ILSA
Kurdish Democratic Party of Iran	KDPI
Main Battle Tanks	MBT
Mujahadeen-e Khalq	MEK
National Iranian Oil Company	NIOC
Non-Proliferation Treaty	NPT
Nuclear, Biological and Chemical	NBC
Organization for the Prohibition of Chemical Weapons	OPCW
Other Armored Vehicles	OAV
Radio Free Europe/Radio Liberty	RFE/RL
United Nations	UN
Weapons of Mass Destruction	WMD

Introduction.

The Government of the United States of America's foreign policy towards the Islamic Republic of Iran is based on a perceived threat. Former Speaker of the U.S. House of Representatives Newt Gingrich characterized Iran in 1996 as "the most dangerous country in the world."¹ Deputy Assistant Secretary for Energy, Sanctions and Commodities William C. Ramsay agreed when he testified to Congress in 1997 that "no nation's behavior poses a greater threat to U.S. political and security interest than that of Iran."² President William J. Clinton, in reaffirming the conditions of the United States' national emergency with regards to Iran, commented in March 1999 that

"... The actions and policies of the Government of Iran, including support for international terrorism, its efforts to undermine the Middle East peace process, and its acquisition of weapons of mass destruction and the means to deliver them, continue to threaten the national security, foreign policy, and economy of the United States."³

The Iranian threat has led to the stiffest economic sanctions that the U.S. has ever leveled against another nation, climaxing with the 1996 Iran-Libya Sanctions Act, which not only forbade trade between U.S. energy companies and Iran, but also

¹ Cordesman, Anthony H. and Ahmed S. Hashim. *Iran: Dilemmas of Dual Containment*. Colorado: Westview Press, 1997. Page 15.

² Ramsay, William C. Testimony before the U.S. Senate Banking Committee. 30 October 1997. http://www.state.gov/www/issues/economic/971030_ramsay_sanctions.html Accessed on 19 September 2000.

³ United States Information Service, 11 March 1999. <http://www.iie.com/FOCUS/SANCTION/iran2.htm> Accessed on 19 September 2000.

threatened to impose U.S. sanctions against any foreign nation that attempted to conduct business in Iran's lucrative oil industry.

The U.S.' stand against the Iranian government's policies towards the pursuit of weapons of mass destruction (WMD), terrorism and opposition to the Israeli-Palestinian Peace Process would only work if the U.S. struck Iran with a full arsenal of economic and diplomatic measures. However, the U.S. government has failed to gain sufficient international support for the enforcement of its sanctions regime, rendering its economic blockade of Iran very penetrable. Accordingly, the U.S. sanctions have had only a marginal effect on Iran's oil industry and consequently, the actions of the Iranian government. On the other hand, the sanctions have succeeded in keeping the flames of Iran's hard line clerics stoked while at the same time preventing U.S. corporations from competing with other international companies who deal with Iran.

Despite this, there have been changes in Iran's foreign policy. The most dramatic policy modifications have come about largely because of President Mohammed Khatami's May 1997 election and his wide support base in the like-minded *Majlis* (Iran's Parliament). President Khatami has renounced terrorism and has given his support to the Palestinian National Authority in its search for a final resolution with the Israeli government. Iran, since President Khatami's inauguration, has continued its conventional military buildup as well as producing and procuring weapons of mass destruction. However, this military spending

continues largely to be in reaction to Iran's huge military hardware losses during the Iran-Iraq war and is aimed at being primarily defensive in nature. Iran's annual military budget continues to be well below the defense funding of its regional neighbors, a commonly overlooked fact that places some of the responsibility of the region's instability on the shoulders of nations other than Iran.

The U.S. government relies on two core premises in its foreign and economic policies towards formerly adversarial nations like China, Russia and Vietnam. First, the heft of the U.S. economy can be used to promote political, economic and social change. Second, that the U.S. has little choice other than to participate in a global economy that ranges from the world's richest to poorest nations. However, in dealing with Iran, the U.S. government has done just the opposite and has attempted to isolate Iran from the rest of the world's nations. This course of action has backfired and has had the opposite result. In terms of international commerce and diplomatic relations with Iran, the U.S. stands alone. Iran has close economic, diplomatic and security ties with Russia, China, India, Indonesia and Brazil who together represent approximately one half of the world's population. The Iranian government has good business relations with most European nations and has signed treaties and agreements with governments on six continents. It also plays important leadership roles in the Organization of

Petroleum Exporting Nations, the Islamic Conference Organization and the Economic Cooperation Organization.

Given the apparent failure of past U.S. policies, a new line of thinking is needed regarding U.S. foreign policy towards Iran. The changes in the Iranian government's policy regarding the Israeli-Palestinian Peace Process and terrorism, in concert with the defensive posture of Iran's military strategy, have reduced the threat to the U.S. and its regional allies. It will be argued below that the U.S. government, by executing precise policy initiatives, instead of an absolute barricade around Iran, will be in a better position to achieve its goals and objectives regarding Iran and the Middle East.

This thesis seeks to redefine the U.S.' current foreign policy towards Iran to reflect a more accurate threat assessment. Chapter one outlines the history of U.S. foreign policy towards Iran and the path that the U.S. government has followed to reach its current policy. The threat that Iran presents to the U.S. and its regional allies is discussed in chapter two. This section applies the U.S. government's milestones of stockpiling weapons of mass destruction, terrorism and blocking the Israeli-Palestinian Peace Process as a framework for assessing the Iranian threat. Additionally, Iran's conventional military strength in comparison to its regional neighbors is used as a further means of evaluating Iran's potential as a threat. Chapter three analyzes the economic effects of the U.S. sanctions against Iran and their consequences on the economies of both Iran

and the U.S. The concluding section recommends specific adjustments to the U.S.' foreign policy towards Iran and demonstrates the necessity for reestablishing diplomatic and commercial relations. It also examines points of mutual interest in the areas of diplomacy and security where improved relations will benefit both nations.

Chapter One

The History of U.S.-Iranian Relations and the Development of Current U.S. Foreign Policy Towards the Islamic Republic of Iran.

Section One: U.S.-Iranian Relations through World War II.

The history of U.S.-Iranian relations is relatively short. However, what is lacking in years has been greatly made up in emotional intensity.⁴ The first contact made between the U.S. and Iran was in 1830 by means of Presbyterian missionaries, who by 1835 had established a school within Iran. This was followed by diplomatic recognition and the 1856 Treaty of Friendship and Commerce signed in Constantinople. Important to this treaty was the U.S. government's reluctance to commit military support to Iran, as the U.S. wanted to avoid any conflicts with the two European powers jockeying to control Iran – Great Britain and Russia. Government-to-government relations were handled by the U.S. and Iranian interests in the Ottoman capital until June 1883 when the first U.S envoy, Samuel G. Benjamin, arrived in Tehran.

During this time of new relations, the U.S. government was a by-stander as it watched Great Britain and Russia sign capitulatory treaties with the Iranian government, each trying to outmaneuver the other and maintain considerable influence within Iran. The U.S. government raised little protest when Russia invaded Iran in 1825 or with the Anglo-Persian war over Herat in 1856. It is

⁴ Hunter, Shireen T. *Iran and the World: Continuity in a Revolutionary Decade*. Bloomington: Indiana University Press, 1990. Page 46.

interesting to note that a principal of both treaties signed after these two conflicts (Treaty of Turkumanchai, 1828 and the Paris Peace Treaty, 1857) was the insistence of permanent capitulatory rights, which exempted citizens of Great Britain and Russia from Iranian laws and regulations.⁵ Iranian opposition groups in 1977-1978, prior to the Islamic Revolution, raised this matter when the U.S. government was attempting to arrange a Status of Forces Agreement (SOFA) for its military forces stationed in Iran. The intent of SOFA was to limit the prosecution of members of the U.S. military by the Iranian judicial system; the idea was that the U.S. military would discipline its own. This agreement struck many Iranians as a direct link to the colonialist attitude of the 19th century powers that exerted so much control over Iran's internal affairs.

However, throughout the early years of U.S.-Iranian relations, the U.S. was highly respected for its anti-colonial attitude and was looked upon by many Iranians as a source of support to counter British and Russian hegemony.

Much to the disappointment of the Iranian government, any U.S. support was again, not forthcoming during the implementation of the Anglo-Russian Convention of St. Petersburg in 1907. The U.S. government had little to gain from involving itself in the affairs of Great Britain and Russia, and as long as the two nations had "respect for the territorial integrity and independence of Persia",

⁵ Samii, Kuross A. *Involvement by Invitation: American Strategies of Containment in Iran*. Pennsylvania: The Pennsylvania State University Press, 1987. Page 32.

it would do nothing to stop the establishment of the two spheres of influence in Iran – the Russians in the North and the British in the South.⁶ These same spheres would be re-established in 1941 as Britain sought to protect its oil interest in the southern portion of Iran and the Soviet Union wanted to guard its critical war supply routes in the north.

But by this time, U.S. attitudes towards Iran and its geographical importance had changed. It was not in the U.S. government's best interest to see any major rival power established in Iran directly across the Persian Gulf from the U.S.' vital concern in the growing petroleum developments in the Kingdom of Saudi Arabia. Therefore, the U.S. was insistent that the Tripartite Treaty in January 1942 between the U.S., Great Britain and the Soviet Union, include an article that promised all forces of the Allied Powers would withdraw from Iran not later than six months after the cease of hostilities between the Allies and Germany.

Throughout World War II, U.S. interest and influence in Iran began to grow. Large numbers of U.S. troops were deployed to Iran under the U.S. Persian Gulf Command, the Iranian Ministry of Food and the Treasury hired U.S. advisors and in February 1944 the two nations elevated the status of their diplomatic missions from legations to embassies.

⁶ Samii, Page 36.

The U.S. government was keenly aware of the Soviet Union's post-war intentions vis-avis Iran and the Caucasus Region. Through making a stand on the issue of troop withdrawals from Iran and by not backing down to Soviet aggression during the birth pains of the Cold War, the U.S. secured not only victory in containing Soviet influence but also the admiration and confidence of the Iranian government. The Iranians, inclined not to trust either the British or the Soviets because of their previous surreptitious intentions, felt that the U.S. government, because of its own history of anti-colonial struggle, would act in fairness and be a just, benevolent ally. This romantic view of the U.S. would last until the *coup d'etat* in August 1953.

Section Two: The *Coup* of 1953.

Not soon after President Dwight D. Eisenhower's election in 1952, a representative of the American petroleum industry informed him that the situation in Iran was a

“...Prairie fire which would spread throughout the Middle East to the detriment of American oil interest in other countries. We have a good reason to believe that, unless a prompt solution is obtained to avoid Iran going to the Communist, the prairie fire of Communism will consume all the strategic interests of the United States and the West throughout the Middle East.”⁷

The Iranian government, under the leadership of Prime Minister Dr. Mohammed Mosaddegh, was embroiled in a bitter fight with the British government over the

⁷ Samii, Page 117.

rights of a sovereign nation to nationalize a given industry within its own borders. However, while the situation was presented to President Eisenhower wrapped in the colorful language of fighting global communism, it was actually based on concerns for U.S. access to and control of Iran's oil. This became the primary reason behind the U.S. government's actions to negate nearly 100 years of non-interference in Iranian internal affairs and participate in the overthrow of Prime Minister Mosaddegh. Prior to the *Majlis*' approval of nationalization in 1951, the Anglo-Iranian Oil Company (AIOC) enjoyed a cozy relationship with the British Government, the primary stockholder. However, this relationship was at the cost of the Iranian government, who saw few of the proceeds from the excavation, refining and sale of Iranian oil. Mosaddegh, refused to negotiate with the British and their offer of increasing Iran's profit share from 20 percent to 50 percent because the Iranian government had no control over the method by which the profit was calculated. He hoped, by nationalizing the AIOC and creating the National Iranian Oil Company (NIOC), to sell Iranian oil on the open world market. However, the market proved to be less than "open", when the British government, with help from large U.S. oil companies, who feared that this type of arrangement would spread to other oil producing nations, boycotted Iranian oil and left the Iranian government quickly running out of income.

Against this background, Prime Minister Mosaddegh came to the U.S. in October 1951 to appeal to the United Nations and request U.S. mediation. The

U.S. government, seeing eye-to-eye with Great Britain about Iran, refereed the discussions between the two nations, but with the view that as far as the U.S. was concerned, Mosaddegh was expendable.

Prime Minister Mosaddegh, returning back to Iran, found his political power waning. Large anti-British and U.S. demonstrations were occurring and he was quickly losing control of the government and the country. To counter domestic opposition, Mosaddegh sought to gain control of the situation by pressing the Shah, Mohammad Reza Pahlavi, for control of the Iranian armed forces. This continuous effort to exclude the Shah from his traditional role in the Iranian government was soon followed by the complete breakdown of diplomatic relations between Iran and Great Britain. At the same time, the growing influence of the pro-Soviet Tudeh party within Iran was too much for the British and U.S. governments to sit idly by and watch. The straw that broke the camel's back was the Soviet Union's July 1953 appointment of Anatol Laurentiev to be the new Soviet ambassador to Iran. Laurentiev was the mastermind of the Soviet Union's takeover of Czechoslovakia in 1948.⁸ A clearer signal to Washington could not have been sent, and the U.S. and Britain decided to act.

The British government developed the principals of Operation Ajax, the code name given to the U.S. Central Intelligence Agency's covert operation to overthrow Mosaddegh. The U.S., while preferring to keep the operation

⁸ Samii, Page 136.

clandestine, developed a military strategy that would include conventional military forces being deployed to the region as a show of force, should the maneuver fail.

What is striking is the simplicity and speed with which Mosaddegh was toppled. Central Intelligence Agency operative Kermit Roosevelt, traveling secretly to Iran with another agent and \$1 million in cash, briefed the Shah of the plan, and then quickly set it into motion. The Shah dismissed Mosaddegh, appointed General Zahedi in his place, and then hastily left Iran for Rome. Roosevelt, spending about \$100 thousand of the C.I.A.'s funds, hired street gangs and sports teams to stage demonstrations and sway public opinion against Mosaddegh. Within a few days large demonstrations were held in support of the Shah and Mosaddegh's house was attacked by a mob. After initially escaping, Mosaddegh was captured and arrested. The Shah triumphantly returned to Tehran, where an enthusiastic crowd greeted him.

The results of the *coup* were immediate and dramatic. The Shah regained control of the Iranian government and armed forces and quickly negotiated a conclusion to the oil dispute. The NIOC would remain an apparatus in name only. It would surrender its rights to market Iranian oil in favor of an international consortium, run jointly by British Petroleum (40 percent of the shares), the large U.S. oil companies (40 percent of the shares) with the remaining

20 percent divided between Dutch and French interest. The consortium gave 50 percent of its profits to the government of Iran.

On the surface, it appeared as if the storm of instability had finally passed over Iran. However, the undercurrents were just beginning to reflect the magnitude of what had just happened. The U.S. had deliberately overthrown a legitimately elected, albeit very unstable government, and had restored the Shah to power. The Shah would remember this fact, both in gratitude for his crown, but in awe of the sheer power exercised by the U.S. Would this sort of muscle ever be unleashed upon him? As a staunch foe against global communism, with oversight of an abundant source of oil, the Shah began an unprecedented relationship of cooperation between Iran and the U.S.

The facts of Operation Ajax remained rumor and hearsay until the 1979 Islamic Revolution. Prior to that, the Iranian people really had no indication as to the extent of the U.S. government's involvement. What could not be concealed were the U.S. oil companies who lined up to join the international consortium that pulled the NIOC strings. As a result of this, for the first time in the U.S.-Iranian relationship, the Iranian people began to associate the U.S. with the corporate greed and imperialism of Great Britain. This betrayal of the high morals expected of the U.S. paved the way for a more critical examination of U.S. intentions in Iran. It also sharpened the assessment of the Shah's action and policies as to who did they really support - the Iranian people or U.S. strategic interests.

The lesson from Operation Ajax, that the U.S. government should heed today, is that the Iranian people are not blind to the internal interference of an outside source. The U.S.' resolve to see policy changes regarding Iran's involvement in weapons of mass destruction, terrorism and the Israeli-Palestinian Peace Process, is viewed as an overt attempt to influence the government of Iran all over again. Iran, throughout much of the 19th and 20th centuries has been under the influence of one outside government or another. Economic sanctions, military occupation and internal political interference are nothing new to Iran. It is these facts that prompted Ayatollah Khomeini's favorite slogan describing the Revolution as "independence, freedom and Islam."⁹

Section Three: U.S. Intervention in Iran, 1953-1979.

As the Cold War competition and rivalry between the U.S. and the Soviet Union increased, so did the U.S. government's strategic interest in Iran. The U.S. would do whatever it took to keep Iran from falling under Soviet influence. Wanting to keep Iran within its sphere of influence, but not too close, became the framework of U.S.-Iranian relations. The U.S. was reluctant to actually sign formal security arrangements with Iran, rather relying on the strength of the relationship between the two nations and its history of assurances to stand by its allies. The U.S. government, throughout most of the 1950s and 1960s disagreed

⁹ Ramazani, R.K. "A Road Map for US-Iran Relations." Remarks to the American-Iranian Council, 13 January 1999. <http://american-iranian.org/Pages/ARTRAM.HTM> Accessed on 19 September 2000.

with the Shah's assessment of Iran's military and security requirements and refused to sell it large quantities of advanced weapons. In fact, from 1953-1961, Iran received less U.S. aid than did India, a non-aligned nation with pro-Soviet tendencies. Nasser's Egypt, with all of its rhetoric against the West, received only one third less aid from the U.S than was given to Iran during this same time period.¹⁰ These facts alone furthered Iranian resentment towards the U.S. and raised the Shah's domestic opposition to question the validity and faithfulness of the U.S. as an ally. Louder became the calls for Iran to seek a non-aligned stance, as it might bring increased economic assistance.

However, the U.S. government's reluctance to militarily and economically support Iran came to a grinding halt in 1969. Great Britain who had, for 200 years, been responsible for the security of the Persian Gulf decided to withdraw its military forces east of the Suez Canal in 1969. This left a large vacuum in the Gulf's security, one that the U.S. did not want to fill directly itself, nor did it want to it hand over to the Soviet Union. U.S. President Richard M. Nixon's 1969 doctrine refocused U.S. interest in global security issues and called for regional powers to be responsible for the security of their own domains while provided with U.S. military aid, arms sales and training. The U.S. policy towards the security of the Persian Gulf was based originally on the "Twin Pillar" system,

¹⁰ Hunter, Page 49.

whereby Iran and Saudi Arabia would lead the Gulf's security arrangements.¹¹

This arrangement sought to accomplish four U.S. goals:

1. Encourage regional collective security.
2. Peacefully resolve territorial and other disputes among regional states.
3. Maintain continued access to Gulf oil supplies at acceptable prices in sufficient amounts.
4. Enhance U.S. commercial and financial interest.¹²

Fundamental to the "Twin Pillars" system were the large U.S. arms exports to Iran and Saudi Arabia. However, Saudi Arabia was not ready to take on this responsibility. Even with the influx of U.S. weapons systems, the Kingdom's armed forces were not prepared to act outside of their own borders. This left Iran with the task of being responsible for all security matters of the Gulf, a task the Shah was eager to undertake.

As shown in Table 1, U.S. arms sales, advisors and technicians soon began to flood Iran in order to appease the Shah's appetite for advanced military hardware and to prepare Iran for its new role as the Persian Gulf's policeman. The results of the U.S.' new policy had a profound effect on U.S.-Iranian relations and the professional development of the Iranian military.

¹¹ Khadduri, Majid. *The Gulf War*. New York: Oxford University Press, 1988. Page 139.

¹² Ramazani, R.K. *The Persian Gulf and the Strait of Hormuz*. The Netherlands: Sijthoff & Noordhoff, 1979. Page 41.

Table 1: Iranian Military Buildup, 1967-1978.

	Tanks	Other Armored Vehicles	Artillery	Combat Aircraft
1967	225	278	120	180
1973	920	1,000	380	159
1978	1,620-1,775	1,075-1,300	782-1,225	459-470

SOURCE: Adapted from Anthony H. Cordesman's *Iran and Iraq: The Threat from the Northern Gulf*. Boulder: Westview Press, 1994. Page 15.

However, the U.S.' "Lone Pillar" policy also had a great effect on the ego of the Shah, who relished his new found importance and took Iran's imperial impulses to the extreme by seizing the islands of Abu Musa and Lesser and Greater Tunb from the United Arab Emirates in November 1970. This maneuver allowed Iran to completely control the entry and exit of all shipping through the Straits of Hormuz.¹³ This military occupation provoked and greatly worried the surrounding Arab Gulf states. However, it still fit within the framework of the U.S.' Persian Gulf security policy so the Shah was encouraged by the U.S. government with even more weapon procurement programs, so many in fact, that throughout the 1970s, Iran was the Developing World's number one spender on arms.

¹³ Abu Musa and the Greater and Lesser Tunb islands were used by Iran to stage attacks on oil tankers during the latter part of the Iran-Iraq war and continue to be a point of contention between the United Arab Emirates and Iran. This issue has also split the Gulf Cooperation Council between those against the occupation (the United Arab Emirates and Kuwait) and those abstaining from condemning the action (Saudi Arabia and Oman).

Adding to Iranian fears of the U.S.' intentions in Iran were a series of sporadic attempts to influence Iran's domestic scene. With little regard as to the means or the consequences, President John F. Kennedy's Administration pressured the Shah to begin a series of social and economic reforms in an attempt to improve living conditions and further contain communist intrusion into the Third World. Buckling under the weight of the U.S. demands, the Shah initiated a regiment of reforms, including land reform and voting rights for women. These drastic societal changes had a severe effect on Iran's social and political framework, leaving the Shah with souring relations with the powerful groups within Iran's society, notably the clergy. The U.S., though influential in pressuring the Shah to make these changes, did little to assist him in dealing with the consequences.¹⁴

Similar pressure was applied to the Shah in 1977, when Iran's human rights record fell under the scrutiny of President James E. Carter's Administration. A link was established between continuing U.S. arms sales to Iran on one hand and Iran's treatment of political prisoners and other human rights issues on the other. Though the promotion of civil rights may have been warranted in Iran, the Carter Administration's insistence on change came at the beginning of the Shah's political ebb, thus adding to his demise, rather than supporting him.

¹⁴ Hunter, Page 51.

Prior to the Islamic Revolution, the U.S., in exchange for its friendship and arms sales, extracted a heavy toll from Iran. From implementing U.S. national security strategy to making modifications in Iran's domestic policies, three U.S. Administrations demanded from Iran what it would never and has not since requested from other regional allies. Since 1979, Egypt has received many times the amount of U.S. aid than was provided to Iran during its twenty-five year alliance with the U.S., yet Egypt has never been asked to perform the type of security duties that the U.S. asked of Iran. The same is true with regards to Saudi Arabia. The U.S. government has not asked the Saudi government to demonstrate more support for the Israeli-Palestinian Peace Process, fearing the regime instability that it may cause. If the U.S. has learned any lessons from its history with Iran, it is not to ask the impossible from its current regional allies – especially requests that could cause the ruling government serious concerns in maintaining its political power.¹⁵

Section Four: The 1979 Islamic Revolution and its Aftermath.

The Shah's exit from Iran on 16 January 1979 set the stage for Ayatollah Ruhollah Khomeini's return to Iran a month later and the resulting turmoil of the Islamic Revolution. The fact that the Shah was no longer in power did not end the relations between the U.S. and Iran. In fact, the U.S. embassy remained open, as did communications and face-to-face consultations between the two

¹⁵ Hunter, Page 52.

governments. The U.S., while not pleased with having lost the Shah, was willing to assist Iran in regaining its stability and nudge it towards a path of moderation. The U.S. government placed high hopes in secular politicians like Prime Minister Mehdi Bazargan, who realized that the U.S. and Iran must maintain relations, albeit to a lesser extent than had been the case during the Shah's reign. Bazargan also supported a new Iranian foreign policy stance that was non-aligned in nature. The U.S. was confident in accepting Iran's new government because the ruling clerics still maintained a healthy apprehension of the Soviet Union and realized that the Iranian government would gain nothing from antagonizing the U.S.

This, however, ended on 4 November 1979 when the U.S embassy was overrun and its 52 occupants held hostage for 444 days. Diplomatic relations were severed on 7 April 1980 and the U.S. began a regime of economic sanctions. The hostage crisis was a violation of international diplomacy and law and served to not only humble the U.S. and emasculate its self-image but also played an important role in creating a crisis that Khomeini could use to unite the increasingly divided post-Revolutionary country. By supporting the takeover of the U.S. embassy, Khomeini realized the resignation of Prime Minister Bazargan (who was leading the opposition to Khomeini's campaign to draft an Islamic Constitution) and the diversion of domestic attention from the on-going battle between the secular and religious factions to Iran's direct confrontation with the U.S.

When Khomeini's government no longer needed the U.S. hostages for domestic purposes, serious negotiations regarding their release began in the summer of 1980, with the government of Algeria acting as an intermediary. In contention were the billions of dollars in Iranian assets that had been frozen in U.S. banks as well as contractual agreements between the U.S. and the Shah's government. The Iranian government was also very interested in regaining portions of the Shah's estate that were located in the U.S. The U.S. government, in return for the hostages, gave the Iranian government approximately eight billion dollars in frozen Iranian funds, ended its economic boycott, and agreed to meet with the Iranian government in The Hague, Netherlands to investigate and resolve the financial differences between the two governments and private enterprises.

Iraq invaded Iran during the peak of the Hostage Crisis. On 22 September 1980 Iraqi forces rolled into southern portions of Iran in an attempt to capitalize on Iran's instability so that Iraq could rectify its border with Iran along the Shatt al-Arab, force Iran to cease its call for a wider Islamic Revolution, return the three Iranian occupied islands to the United Arab Emirates and stop Iran's support of the Iraqi Kurds. From the beginning of the eight-year war, the Iranian government was convinced that Iraq had attacked Iran with the U.S. government's blessings and that the Iraqi military was provided with U.S. intelligence about the disposition of Iranian military forces.

The U.S. government had nothing to gain from either approving or supporting Iraq's invasion of Iran. First, any collusion with the invading Iraqi forces might endanger the lives of the 52 U.S. hostages. Second, the U.S. was unsure about Iraq's intentions in Iran and questioned whether the Iraqi government could be trusted to keep the territorial integrity of Iran stable and prevent a Soviet military intervention. Finally, the U.S. was leery of Iraq's growing hegemony in the Persian Gulf and the Middle East.

The U.S. government initially adopted a position of neutrality about the Iran-Iraq war, but occasionally allowed indirect arms sales to Iran to occur so that Iran would not fall prey to a stalking Soviet Union. However, by the summer of 1982, with Iran having repelled the Iraqi invading forces and suddenly the vision of an Iranian victory becoming a reality, the U.S. shifted its policy and began to support Iraq's war effort. The U.S. government removed Iraq from its list of nations that supported terrorism, which opened the door for both the U.S. and Persian Gulf Arab states to send badly needed aid. The U.S. government provided agricultural aid, economic credits and indirect military aid through Egypt and Jordan.

U.S.-Iranian relations took an even deeper plunge during the fall of 1983. The U.S. government implicated Iran in assisting in the bombings at the U.S. Marine Corps barracks in Beirut in October and the U.S. embassy in Kuwait in December. Iran was also held responsible for a number of kidnappings of U.S.

citizens in Lebanon. By January 1984, President Ronald W. Reagan's Administration designated Iran a terrorist state and initiated a second series of economic sanctions that tightened U.S. export regulations regarding Iran.

In a misguided attempt to test the waters of reopening lines of communications with the Iranian government, the Reagan Administration, in particular, the office and staff of the National Security Advisor and the C.I.A., began a series of illegal military sales to Iran in hopes of winning the release of the U.S. hostages in Lebanon. By November 1986, the details of the arms for hostages deal was made public by President Reagan, who also informed the U.S. public about the third leg of the arm sales deal. The proceeds made from the arms sales to the Iranian government were not sent back to the U.S. government's coffers, but went to fund the *Contras* in their insurgency fight against the Communist *Sandinistas* in Nicaragua. The affair enraged the U.S. Congress who not only did not want to conduct business with the Iranians but also had prohibited the U.S. government from funding the *Contras*' fight. Getting caught in this issue embarrassed moderate leaders in Iran, who, out of self-preservation, began to adopt an increasingly more hard line stance regarding the U.S.

Despite the damage made evident by the U.S. Congress' investigation of the Iran-Contra Affair, the Reagan Administration still saw value in establishing some sort of dialogue with the Iranian government. As late as January 1987, U.S. Secretary of State George Schultz commented on common interest that the U.S.

and Iran shared, in particular limiting the Soviet Union's regional hegemony.

Shultz stated that the U.S. recognized the 1979 Islamic Revolution as a "fact of history" and that the U.S. government harbored "no malice toward the Iranian people."¹⁶ The U.S. was willing to meet with the Iranian government, but only in open forums, and with official representatives. This was not possible given Iran's domestic arena. The moderates in the Iranian government were politically on the run and could only retain their positions if they committed to the hard-line stance of opposing the U.S.

Early in the conduct of the Iran-Iraq war, both nations attempted to limit each other's ability to produce and market their oil, consequently curbing the funding for the war effort. On 3 February 1984 Iraq attacked ships carrying Iranian crude oil in the Persian Gulf. Iran responded by attacking Kuwaiti and Saudi ships because of their support for Iraq. Known as the "Tanker War", this new escalation had the potential to obstruct the free flow of oil from the Persian Gulf due to the threat of land and air launched missiles, patrol boat attacks and mines placed randomly in the sea-lanes that the tankers ploughed. Thus when Kuwait asked the U.S. government to re-flag eight ships from its tanker fleet in late January 1987, the U.S. saw this as not only a chance to further its goal of

¹⁶ Hunter, Page 67.

limiting the Soviet's influence in the Persian Gulf, but also as a way to side indirectly with Iraq and begin to punish Iran.¹⁷

Iraq was responsible for 70 percent of the attacks against international shipping during the Tanker War. However, with the U.S. escorting ships from primarily nations that supported Iraq's war efforts against Iran, the U.S. Navy found itself in direct conflict with Iranian naval forces. As the U.S. Navy's presence in the Persian Gulf swelled to over 40 ships, so did the potential for dangerous incidents. The first occurred on 17 May 1987 when an Iraqi jet launched a missile that struck the *U.S.S. Stark*, killing 37 sailors and wounding 21. Iraq apologized for the incident, which was accepted by the U.S. This incident served notice that the U.S. involvement in the Tanker War, and the Iran-Iraq War as a whole, would not come without sacrifice.

Five months later a missile hit a Kuwaiti re-flagged tanker and the U.S. retaliated against Iran by attacking two oil platforms and imposing a total trade embargo. As a result of this embargo, Iranian exports (mainly oil) to the U.S. would plummet from \$1.6 billion for the previous 10 months in 1987 to zero.¹⁸

¹⁷ Kuwait initially asked the U.S. to re-flag its tankers in September 1986. The U.S. refused, not wanting to be drawn further into the Iran-Iraq war. Kuwait then asked the Soviet Union to participate by leasing and escorting three of its oil tankers. Only upon the Soviet's acceptance and the Kuwaiti's second invitation, did the U.S. commit to re-flag and escort Kuwait's oil tankers.

¹⁸ *International Trade Reporter*. "President Announces New Iranian Sanctions Including Import Ban, New Export Controls." 28 October 1987. Pages 1312-1313.

On 3 July 1988, while engaging Iranian patrol boats attempting to attack a convoy of oil tankers, the *U.S.S. Vincennes* shot down an Iran Air passenger plane in route from Bandar Abbas to Dubai, United Arab Emirates, killing all 290 of its passengers and crew. The Iranian government did not retaliate, instead it responded with a barrage of harsh rhetoric and sponsored a condemnation of the U.S. government's actions by the International Civil Aviation Organization. If anything, the *Vincennes* incident strengthened the positions of the moderates in the Iranian government, in that it showed the Iranian public the cost of maintaining an antagonistic relationship with the U.S. However, this incident remains a very sensitive subject, especially in light of Vice President George H.W. Bush's remarks that called the shoot down an act of self-defense on the part of the *U.S.S. Vincennes* and the fact that the U.S. has never openly apologized for the incident.

Later that month, Iran agreed to the conditions of the United Nations Security Council Resolution 598, which called for an immediate cease-fire between Iran and Iraq. This was a bitter pill for the Iranians to swallow in that the U.S. government had sponsored the Resolution and did little to place the responsibility on Iraq for initiating the hostilities. However, the end of the war brought an end to the direct military actions between the U.S. and Iran and a reduction of tensions in the Persian Gulf as a whole.

Section Five: Laying the Foundation for Current U.S. Policy, 1988-1992.

President Bush's time in office, in terms of furthering U.S.-Iranian relations, concentrated on the release of U.S. hostages held by fundamentalist *Shia* groups in Lebanon. President Bush spoke directly to the Iranian government during his inauguration speech declaring that Iranian goodwill would be matched in kind by the U.S. Progress was made at the U.S.-Iran Claims Tribunal in The Hague, with the U.S. government releasing \$567 million in frozen assets on 7 November 1989.¹⁹ Slowly, U.S. hostages were being released in Lebanon, with Terry Anderson, the Associated Press' Chief Middle East correspondent, being the last to be freed in December 1991.

In a reaction to the release of the hostages, the success in The Hague and Iran's neutrality during the Gulf War, President Bush, in November 1991, authorized U.S. companies to begin importing limited amounts of Iranian oil. Business contacts were reestablished between the two nations, and though lacking diplomatic relations, the two governments communicated by means of emissaries from Switzerland, Algeria, Germany, Japan, Turkey and Pakistan. This level of trade, while maintaining some of the economic sanctions from the Iran-Iraq War in place, marked a high water mark in U.S.-Iranian relations after the Islamic Revolution. While the two governments still had numerous grievances against

¹⁹ Sciolino, Elaine. "Bush Hopes to Settle Iranian Assets Issue." *The New York Times*. 8 November 1989, Page A14.

each other, the free will of international commerce was allowed to slowly increase contacts between the two nations.

Widening the gap between the two nations was Iran's response to the 1991 Madrid Peace Conference. This meeting involving not only Israel, the Palestinians and their surrounding neighbors, but also Russia and observers from the Gulf Cooperation Council and the European Union, met to seek a path of peaceful dialogue as the course for resolving the Israeli-Palestinian conflict. However, from the conference's opening day of 30 October 1991, the Iranian government was vehemently opposed to the agenda and any negotiations at all. The Iranian News Agency stated that most Muslims considered the first day of the conference as a "day of shame and grief."²⁰ Having severed diplomatic relations with Israel in February 1979, the new Iranian government viewed Israel as an illegal entity and supported armed Palestinian groups, such as HAMAS, in their struggle against Israel. This viewpoint was especially prevalent after the embarrassment suffered by the Iranian government after the knowledge that it had had dealt with Israel during the Iran-Contra Affair.

In response to Iraq's attempt to rebuild its military following the Gulf War and Iran's continuing endeavors to recover from its military hardware losses suffered during the Iran-Iraq War President Bush signed the Iran-Iraq Arms Non-Proliferation Act into law. This legislation, enacted in October 1992, put

²⁰ Kemp, Geoffrey. *Forever Enemies? American Policy & the Islamic Republic of Iran*. Washington D.C.: The Carnegie Endowment for International Peace, 1994. Page 86.

stringent controls and prohibitions on the U.S. export of defense items, nuclear material and certain dual-use technologies.²¹ It also called for the application of sanctions against any foreign nation or person that knowingly assisted Iran in obtaining any of the prohibited items.²²

It was this legacy that President Bush's Administration passed on to President Clinton in 1993. The U.S. was committed to the Israeli-Palestinian Peace Process. Encouraging the Palestinians and the Israelis to sit and discuss their collective futures was a priority for the U.S. government, which considered the Peace Process a national strategic interest in light of the potential that it held in producing increased stability in the Middle East.

Section Six: The Development of Current U.S. Policy, 1992-2000.

Economic relations between the U.S. and Iran grew during the early 1990s, reaching their zenith in 1993 when Iran imported \$1 billion worth of US goods. During the same time period 30 percent of Iran's oil exports went to the U.S., an amount equal to over \$4 billion.²³ However, with the January 1993 inauguration of President Clinton, a new team of elites and a new school of thought regarding the U.S.' stance regarding relations with Iran took over.

²¹ Dual-use technologies have both civilian and military applications.

²² U.S. President's Export Council 1992. <http://www.ita.doc.gov/td/pec/meeting.html> and <http://www.iie.com/FOCUS/SANCTION/iran1.htm> Accessed on 19 September 2000.

²³ Gerges, Fawaz A. *America and Political Islam: Clash of Cultures or Clash of Interests?* Cambridge: Cambridge University Press, 1999. Page 120.

The Clinton administration's primary foreign policy objective in the Middle East was to support the Israeli-Palestinian Peace Process. This was followed closely by maintaining stability in the Persian Gulf, thereby ensuring the free flow of oil. In the eyes of President Clinton, the Islamic Republic of Iran stood in the way of these two U.S. objectives. The Administration claimed that Iran was vigorously blocking the Peace Process, sponsoring terrorist organizations while exporting the fundamentals of its Islamic Revolution across the Middle East. More importantly, Iran was actively attempting to produce and procure weapons of mass destruction, particularly, nuclear weapons. President Clinton was adamant about devising a foreign policy that would influence Iran's actions in these three areas. Other forces, however, were at play in considering the U.S.' next foreign policy move.

First, President Clinton's initial Secretary of State was Warren Christopher, who viewed the Iranian government through a very jaundiced eye. Under President Carter, Christopher had been the Deputy Secretary of State, experiencing all of the Administration's turmoil during the Islamic Revolution. When Secretary of State Cyrus Vance resigned as a result of the failed hostage rescue attempt in Iran in April 1980 and was replaced by Senator Edmund Muskie, Christopher kept his position within the State Department, but because of his experience, was empowered to lead the diplomatic effort to free the U.S. hostages. Christopher conducted a frustrating series of diplomatic trips to

Algeria, which was mediating between the governments of the U.S. and Iran during the hostage negotiations. Christopher had been “profoundly shaken by what the Islamic regime had done to Carter” and to himself, as he had aspirations of replacing Muskie in President Carter’s second Administration.²⁴ With these hopes crushed, Christopher developed a bitter hatred of the Iranian government, and when in a place of power, was able to exact his revenge and influence President Clinton to invoke a very stiff policy with Iran.

Second, the U.S. Congress, which in turn was being pressured by the American-Israeli Political Action Committee, one of Washington’s most powerful interest groups, was pressuring President Clinton to punish Iran’s activity in blocking the Israeli-Palestinian Peace Process. In particular, Israel was concerned about Iran’s support of the Hezbollah guerillas in Southern Lebanon and HAMAS, who operated within the Gaza strip and the West Bank. President Clinton, seeing that by squeezing Iran, he could not only appease Israel and further entice them to actively participate in the Peace Process, but he could also score important points in the U.S. Congress, shoring up his domestic support.

Thus molded by not only U.S. national interests, but also personal and Israeli influence, the Clinton Administration’s policy regarding Iran was formed. On 18 May 1993, Martin Indyk, the special assistant to the President for Near East and South Asian affairs at the National Security Council gave the landmark

²⁴ Gerges, Page 125.

speech which introduced the strategy of Dual Containment. Indyk stated that the U.S. government's policy, which had been in the past to "play" Iran and Iraq off one another, leaving each destabilized, had failed and that the new policy would contain the means to curtail "Hussein's threats to his neighbors and his own people, while at the same time pursuing multilateral efforts to prevent Iran from acquiring and developing weapons of mass destruction."²⁵

1995 saw a coordinated effort between the U.S. Congress and the Clinton administration to tighten the grip on Iran. Assistant Secretary of State Robert H. Pelletreau summed up the administration's position on 2 March 1995 in his testimony to Congress, stating "Our policy towards Iran is to pressure Tehran to abandon specific policies we find abhorrent and a threat to vital American interest."²⁶ Senator Alfonse D'Amato and Representative Newt Gingrich led the Congressional efforts. D'Amato sponsored legislation signed on 30 April 1995 by Clinton as a Presidential executive order that prohibited all U.S. trade with Iran. This act killed a \$1 billion deal between Iran and the U.S. oil company, Conoco. The Iranian government, in minimizing this setback, moved on and struck the same deal with the French company, Total. Gingrich pressured the Administration to authorize \$20 million in funding for a covert Central

²⁵ Indyk, Martin S. "United States Policy Toward the Middle East". Testimony to the U.S. House International Relations Committee. 8 June 1999.

http://www.state.gov/www/policy_remarks/1999/990608_indyk_mepolicy.html Accessed on 19 September 2000.

²⁶ Cordesman, Page 13.

Intelligence Agency action plan that aimed at “moderating the Islamic government in Tehran by – among other measures – cultivating new opponents to the regime.”²⁷ The Iranian government labeled this plan as an act of state-sponsored terrorism and committed \$8 million in its 1996/1997 budget to counter it.²⁸

President Clinton, in 1996 did not want to lose the race of initiating the harshest policy regarding Iran to the U.S. Congress. He revised Senator D’Amato’s original legislation and his own Presidential executive order, signing them into law as the Iran-Libya Sanctions Act (ILSA). Implemented on 5 August 1996, this final escalation of U.S. foreign policy regarding Iran was strongly protested by U.S. allies as it mandated further U.S. sanctions against all foreign companies that invested more than \$40 million annually to develop the Iranian (or Libyan) oil or natural gas industry. France reacted the strongest, stating that it would fine any French company that did not trade with Iran because of the threat of U.S. sanctions.

In September 1997, three companies from France, Russia and Malaysia, each wanting to invest in Iran’s petroleum industry, immediately tested the U.S. government’s resolve to implement the sanctions required by the ILSA. The U.S. government fearing a showdown with its allies and their potential complaints to

²⁷ Bahgat, Gawdat. “Beyond Containment: US-Iranian Relations at a Crossroads”. *Security Dialogue*. Volume 28, 1997. Page 454.

²⁸ Cordesman, Page 15.

the World Trade Organization waived the imposition of the sanctions, claiming that increased cooperation between the U.S. and its allies had limited Iran's potential to conduct terrorism and obtain weapons of mass destruction. U.S. companies, claiming that they continued to be at a competitive disadvantage with other international companies, remained barred from investing in Iran.

The Clinton Administration began easing some of its sanctions and restrictions in 1997, mainly due to the election of Mohammed Khatami to the office of Iran's President. His election in May 1997 showed a major domestic crack developing between Iran's populace and its hard line clerical leadership. Iran's recent *Majlis* elections have brought to power a majority of reform-minded members who are tired of their government's bumbling economic policies. Recognizing that the Iranian people had shown a desire to participate in their own government (88% of the eligible voters voted in the Presidential elections) and sought a greater openness with the outside world, the Clinton Administration loosened the economic embargo in 1998, allowing Iran to import U.S. agricultural products, medicines, medical equipment and limited spare parts for commercial passenger aircraft sold to Iran before the Islamic Revolution. Identifying Iran's successful campaign to eradicate opium plants and fight drug traffickers from Afghanistan, the U.S. government removed Iran from its list of drug source and transit nations in December 1998. Reflecting the Clinton Administration's desire to further advance relations with Iran, Secretary of State Madeleine Albright

stated on 17 March 2000 that the U.S. would relax its import restrictions on Iranian carpets and some food products such as dried fruits, pistachios and caviar.

Section Seven: Summary.

U.S. relations with Iran, stretching back to the 19th Century, have gone through many important changes. Prior to World War II, the U.S. refused to become involved in the affairs of Great Britain and Russia as they each systematically weakened the government of Iran. Iranians hoped that the U.S., with its own history of being the target of colonial powers, would come to their assistance. During World War II, the U.S. recognized Iran's geographical importance, not only as a source of oil and a short way to move critically needed war supplies to its Soviet ally, but also because of the vulnerability of its own oil interest in Saudi Arabia to any other great power that wielded influence in Iran. The beginning of the Cold War saw Iran's influence in the world oil market increase as well as its importance in containing global communism. Operation Ajax in 1953 firmly moved Iran from the potential clutch of the Soviet Union to become a strong ally of the U.S., though its leader, the Shah, became increasingly reliant on the approval and suggestions of the U.S. government. The *coup* transformed Iran's oil industry from a British run operation to one that the U.S. now had a vested interest in. The Islamic Revolution in 1979 brought about a complete reversal of this level of cooperation, with the hostage crisis seen as a tool for the Ayatollah Khomeini to galvanize domestic support as well as show

the U.S. that power had shifted in relations between the two nations. The U.S. involvement in the eight-year Iran-Iraq war crept from neutrality to armed conflicts with the Iranian military. Not discouraged, the U.S. tried to reach out to moderate forces within the Iranian government, but this dialogue quickly evolved into bribing the Iranians to free U.S. hostages in Lebanon. Encouraging steps in international trade were undertaken between the two nations up until Iran's assault on the 1991 Madrid Peace Conference. The U.S. government, in playing a vital role in organizing and sponsoring the negotiations between the Israeli government and the Palestinians, would not tolerate any outside intervention that sought to torpedo these talks, considered to be in its national strategic interest. This animosity continued, leading to the 1996 ILSA, the strictest U.S. economic sanctions ever applied to a single nation. Relations began to thaw with the 1997 election of President Khatami. Seen as pragmatic and needing international support against his struggle with the ruling hard-line clergy, Khatami called for a greater openness with the U.S. The Clinton Administration, in an attempt to reduce the friction between the two nations and to set the stage for a possible future dialogue, reduced the U.S. sanctions.

What remains is the current U.S. policy towards Iran. This strategy seeks to cool U.S. rhetoric against Iran, support the moderates in Iran's government and seek an eventual dialogue between the two nations. These endeavors are matched with a concentrated effort to limit the Iranian government's access to nuclear and

other weapons of mass destruction technologies and to restrict its involvement in international terrorism.

Chapter Two

An Analysis of Iran's Potential Military Threat to the Security of the U.S. and its Regional Allies.

Section One: Introduction.

The goals of the Clinton Administration's policy towards Iran have been to change Iran's foreign policy in three areas: procurement of weapons of mass destruction, terrorism and opposition to the Israeli-Palestinian Peace Process. The U.S. policy came about as a result of a perceived threat to U.S. interests and to the security of its regional allies. President Clinton, in his Administration's 1999 National Security Report, while encouraged about the prospects of President Khatami and his fellow pragmatic politicians, remained very hawkish about the Iranian government's continued involvement in obtaining

“...WMD and long-range missiles, its support for terrorism and groups that violently oppose the Middle East Peace Process, its attempts to undermine friendly governments in the region, and its development of offensive military capabilities that threaten our GCC partners and the flow of oil.”²⁹

Through the use of sanctions and political alliances, the U.S. government has sought a reversal in Iran's threatening policies.

The Iranian government, however, has a different idea about these charges. The Iran-Iraq War left the Iranian military in a desperate state. Not only were large amounts of its hardware destroyed, but Iran also found itself cut off

²⁹ U.S. National Security Council. National Security Strategy Report: December 1999. Page 43. <http://www.whitehouse.gov> Accessed on 31 October 2000.

from the spare parts sources for the weapon systems that were supplied by the U.S. and other Western nations. Iran also learned valuable lessons about the consequences of employing chemical weapons and other WMD, as it had been the target of numerous Iraqi chemical and long-range missile strikes during the War.

Iran's national security continued to be threatened after the Iran-Iraq War ended in 1988. The continued Soviet war in Afghanistan, the instability created in Central Asia by the disbanding of the Soviet Union, Iraq's 1990 invasion of Kuwait, the international coalition's large military response to expel Iraqi forces from Kuwait and the expansive advanced weapons procurement programs initiated by the members of the GCC have all shown Iran that it resides in a very dangerous neighborhood. These facts, plus Iran's long history of external intervention, have prompted the Iranian government to focus on its security situation.

Thus, both parties hold on to their version of the truth. The U.S. government claims that Iran is a rogue nation that is a threat to the security and stability of the Persian Gulf and the surrounding region. The Iranian government states that it must build up its military forces and security organizations as a direct result of the Iran-Iraq War and its history of Russian, British and U.S. attempts to control the domestic affairs of Iran. Iranian leaders additionally point to the

unstable region and to the nations that surround them wondering who would not arm themselves in such a situation.

What follows is an objective analysis of the threats that Iran poses to the U.S. and its regional allies. Using the benchmarks of the Clinton Administration's policy goals (WMD, terrorism, and objection to the Israeli-Palestinian Peace Process) as a framework, an assessment will be made of the type of threat that Iran poses. Additionally, Iran's conventional military program will be considered in relation to the strategies of its Persian Gulf neighbors.

Section Two: Iranian Weapons of Mass Destruction Programs.

The U.S. Department of Defense defines weapons of mass destruction as

“Any weapon or device that is intended or has the capability to cause death or serious bodily injury to a significant number of people through the release of toxic or poisonous chemicals or their precursors, a disease organism, or radiation, or radioactivity.”³⁰

The government of Iran does not deny that it is interested or already committed to procuring and producing certain types of WMD. Reflecting on Iran's claim of 5,000 fatalities and approximately 45,000 wounded personnel due to Iraqi chemical attacks during the Iran-Iraq War, former President Akbar Hashemi Rafsanjani stated in 1988 that Iran “...should completely equip [itself] both in the offensive and defensive use of chemical, bacteriological and radiological

³⁰ U.S. Department of Defense. “Department of Defense Plan for Integrating National Guard and Reserve Component Support for Response to Attacks Using Weapons of Mass Destruction.” January 1998. <http://www.defenselink.mil/pubs/wmdresponse> Accessed on 1 November 2000.

weapons.”³¹ This history, matched with Iran’s regional neighbor’s interests in WMD, especially Iraq, Israel, Syria, India and Pakistan, and the U.S.’ ability to quickly assemble a large conventional force in the Persian Gulf, have led Iran’s leaders to conclude that WMD, particularly nuclear and chemical weapons, are a prudent choice for the defense of Iran’s borders. Experts agree that Iran already possesses a large chemical weapons arsenal, consisting mainly of World War I-era agents.³² Iran is also suspected of having a biological weapons research plan and stockpile. Development of this program was accelerated in 1995 after the publicity of Iraq’s biological warfare program. While there is no “smoking gun” directly linking Iran and nuclear weapons, circumstantial evidence is burying Iran’s cries that their program is for energy production only. Furthermore, Iran has both produced and procured short-range ballistic missiles and is working on programs for longer-range types.

Nuclear Weapons.

Iran’s interest in nuclear generated electricity began under the Shah, who envisioned a series of 23 power generating reactors operating in Iran by the mid 1990s. The U.S. provided Iran with its first nuclear reactor in 1967. It was supplemented with contractual agreements from Germany, France and the U.S. to

³¹ Chubin, Shahram. *Iran’s National Security Policy: Capabilities, Intentions & Impact*. Washington D.C.: The Carnegie Endowment for International Peace, 1994. Page 26.

³² Falkenrath, Richard and Michael Eisenstadt. “Iran and Weapons of Mass Destruction”. *Policy Watch*. The Washington Institute for Near East Policy, 4 March 1998. <http://www.washingtoninstitute.org/watch/Policywatch/policywatch1998/305.htm> Accessed on 12 September 2000.

build additional reactors. Throughout the Shah's reign, Iran invested in the education of thousands of Iranian students who trained in nuclear technology in France, Germany, India, Britain and the U.S.

Throughout the Shah's intense interest in nuclear power the U.S. government harbored suspicions that Iran's nuclear power program might slowly creep into one capable of supporting the research and construction of a nuclear weapon. To counter these suspicions, Iran signed the Non-Proliferation Treaty of 1970 and 1995, the Nuclear Safety Agreement, the Test Ban Treaty and opened its nuclear power program to inspections from the International Atomic Energy Agency (IAEA). However, U.S. reservations remained, especially in light of Iran's massive oil and natural gas deposits. Economically it is 25-35 percent cheaper for Iran to generate electricity from natural gas than from a nuclear reactor.³³

Immediately after the Islamic Revolution, Iran cancelled the majority of the reactor construction projects that it made under the Shah. However, the suffering caused by the ravages of the Iran-Iraq War, led Ayatollah Khomeini to eventually revive Iran's nuclear program. By 1985, China had stepped up to assist Iran in its continued nuclear ambitions, implementing a nuclear research cooperation agreement and providing what other nations, such as Pakistan and France, would not - two additional reactors, which were completed in 1987. Iraq,

³³ Cordesman, Anthony H. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Connecticut: Praeger Publishers, 1999. Page 376.

catching wind of Iran's nuclear revival, repeatedly bombed Iran's reactor projects at Bushehr, along the Persian Gulf coast.

By 1990 Iran's intentions to expand its nuclear power agenda became a critical program that the U.S. government began watching intensely, blocking its growth, at every opportunity. Yielding to U.S. pressure, Argentine's government reversed its \$18 million sale of nuclear technology to Iran in February 1992.

International customs officials, especially those in the U.S. and Europe were alerted, slowing the transfer of dual-use technologies and materials that could be used to enhance Iran's nuclear program.

By 1992, with its sources from the West quickly drying up and alert to U.S. efforts to stop its development, Iran turned to China and Russia for support of its nuclear program. Former President Rafsanjani, during his September 1992 visit to Beijing, finished negotiations for the sale of two 300-megawatt reactors to be built in Bushehr.³⁴ Revelation of the deal led to a quick denouncement by the U.S., followed by U.S. pressure on China to defer and eventually cancel the contract. China, valuing good relations with the U.S. government more than Iran's fragile economy and oil related hard currency sources, suspended the deal indefinitely. A statement issued by the Chinese Foreign Ministry in October 1997

³⁴ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 371.

stated “Our peaceful use of nuclear energy with Iran has not been carried out because of some disputes over the contract.”³⁵

The U.S., however, did allow China to honor its contracts to build a small “zero-power” reactor at Esfahan and a factory that produces metal cladding for nuclear fuel rods. These projects will not allow Iran to produce any fissile material needed to create nuclear weapons. Some experts question this move, worrying that some of the Chinese-provided equipment and technology could help Iranian technicians master the methods required to do so.³⁶ Not wanting to lose face, the Iranian government maintained that China had not halted its transfer of nuclear technology nor dual-use material used by Iran’s nuclear research program, but merely delayed it.

A January 1995 nuclear cooperation accord signed by Iran and Russia gave \$850 million to Russia in return for its completion of the German reactor facilities in Bushehr, one of which was never completed because of the Islamic Revolution. In accordance with the agreement, the Russians were to install a 1,000-megawatt water-cooled reactor, provide low-enriched uranium fuel for the reactor and train Iranian personnel to operate the reactor. Additionally, Russia agreed to train 10-20 Iranians at the graduate and Ph.D. level and provide Iran

³⁵ Cordesman. *Iran’s Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 372.

³⁶ Eisenstadt, Michael. “U.S. Policy and Chinese Proliferation to Iran: A Small Leap Forward? *Policy Watch*. The Washington Institute for Near East Policy, 31 October May 1997. <http://www.washingtoninstitute.org/watch/Policywatch/policywatch1997/273.htm> Accessed on 12 September 2000.

with the option to purchase a gas centrifuge enrichment plant, a series of low power training reactors, a nuclear desalination plant and assist in the development of a uranium mine.³⁷ The implementation of this robust plan would have greatly aided Iran in acquiring the facilities, skills and first-hand knowledge necessary to quietly enhance its nuclear weapon research and development infrastructure. The U.S. government was soon able to convince Russia to forgo the execution of key portions of the contract, notably the research reactor, the gas centrifuge enrichment plant and stipulate that all spent fuel from the Bushehr plant be returned to Russia. Presently the U.S. government is attempting to block the construction of the 1,000-megawatt Russian reactor, fearing that Iran would be able to use reactor grade plutonium from the reactor as fissile material, much in the way both Russia and France have used similar reactors to provide the fuel for their nuclear weapons. The U.S. threw a fly in the ointment by persuading the Ukrainian government not to provide the steam turbines needed for the project. This setback, in concert with construction problems generated by local contractors as well as attempts to match the modern Russian reactor with the aging German infrastructure has set the project back from a completion date of early 2000 to at least 2002. Iran has found a new supplier for the steam turbines in St. Petersburg, but the price of the contract has risen significantly above the

³⁷ Eisenstadt, Michael. "Halting Russian Aid to Iran's Nuclear and Ballistic Missile Programs". *Policy Watch*. The Washington Institute for Near East Policy, 25 September 1997. <http://www.washingtoninstitute.org/watch/Policywatch/policywatch1997/267.htm> Accessed on 12 September 2000.

original \$850 million. However, Iran seems intent on seeing and funding this project through to completion.

The U.S. government has labeled Iran's persistence in developing its nuclear program as "creeping proliferation".³⁸ If left on its own, the Iranian government's program may eventually be able to develop a nuclear weapon. Estimates range from a 1992 C.I.A. assessment that Iran would have a nuclear weapon by the year 2000 to a 1997 analysis by John Holum, director of the U.S. Arms Control and Disarmament Agency, who testified to the U.S. Congress that he thought Iran would have a nuclear weapon completed by 2005-2007.³⁹ Most experts are comfortable in stating that Iran, with no external assistance is at least five to seven years from developing a nuclear weapon using its own fissile fuel and six to nine years from the capability of placing such a device into a warhead of an accurately targeted long-range ballistic missile system.⁴⁰

What drives the ambiguity in U.S. intelligence estimates is Iran's lack of fissile fuel. Most experts agree that Iran has the basic technology to build a weapon, but simply lacks the grade of uranium or plutonium needed for its construction. If Iran were to obtain fissile fuel on the black market from any of the former Soviet republics, its nuclear weapons program could be accelerated

³⁸ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 365.

³⁹ Ibid., Page 386.

⁴⁰ Ibid., Page 387.

immediately, with a nuclear weapon being deployed in nine to 36 months.⁴¹

Hints that agents of the Iranian government were seeking to make such a purchase surfaced in 1994 and prompted the U.S. government to purchase and transport 500 kilograms of enriched material from Kazakhstan.

In light of its commitments under the Nuclear Proliferation Treaty, the Iranian government has three options in which to focus its nuclear program:

1. create a civilian nuclear infrastructure capable of rapidly producing a nuclear weapon if its threat environment were to change;
2. use its civilian program to acquire the expertise required to embark on a clandestine parallel nuclear program once all the necessary building blocks for a military program are in place, so that it would not be vulnerable to a cut-off in foreign assistance if discovered;
3. simultaneously create a clandestine parallel weapons program alongside its declared civilian program.⁴²

These options have two primary drawbacks, the primary one being the time lag in options one and two that do not allow Iran to quickly create enough fissile material or design a weapon that is deliverable by a long-range missile system.

Option three is plagued by the chance that Iran's secret initiative might be exposed, placing Iran in a hole of further sanctions and international censures, which would indefinitely impede its nuclear weapon strategy.

⁴¹ Ibid., Page 387.

⁴² Eisenstadt, Michael. "Iran's Revolutionary Guard Commander Sends a Warning". *Policy Watch*. The Washington Institute for Near East Policy, 7 May 1998.
<http://www.washingtoninstitute.org/watch/Policywatch/policywatch1998/314.htm> Accessed on 12 September 2000.

The U.S. government is convinced that Iran is cautiously proceeding along a course similar to option three. It views Iran as not only having close ties with nations with a history of proliferation (Russia and China), but also geographically placed in a region that includes the nuclear likes of Pakistan, India, Israel and Iraq's unmonitored nuclear program. The U.S. government also recognizes that Iran's government would bolster both domestic and limited external Muslim support if it controlled the reins of a second "Islamic Bomb".⁴³ Iran's nuclear weapons would serve as a symbol of the Islamic Revolution's success, especially in light of the government's failure to deliver economic prosperity. Nuclear weapons would also amplify Iran's international voice, while demanding the respect that its government feels it deserves.

The U.S. sees Iran motivated to seek a nuclear weapons program because of the need to rebuild its military but not at the expense of destroying its economy. The primary reason being that conventional weapons are often extraordinarily expensive, especially advanced ones: one tank may cost \$1-3 million, a combat aircraft \$25-50 million, while a warship may cost anywhere from \$50 million for a fast-attack craft to \$500 million for a modern frigate. Thus, creating a large, advanced, conventional military force could cost tens of billions of dollars. Meanwhile, a well-planned and well-managed nuclear program might only cost a few billion dollars, a sum that an oil-producing nation

⁴³ Pakistan demonstrated that it had nuclear weapons capability in May 1998.

like Iran could afford to discreetly fund.⁴⁴ Additionally, Iran sees nuclear weapons as the only type of weaponry that might give it a fighting chance against a U.S. led Desert Storm style assault, a scenario that Iran views as a distinct possibility. Akbar Torkan, Iran's former Defense Minister verifies this line of thinking, asking in 1993 "Can our air force...take on the Americans, or our navy take on the American navy? If we put our country's budget into such a war we would have just burned our money. The way to go about dealing with such a threat requires a different solution entirely."⁴⁵

Iran, as a member of the International Atomic Energy Agency has allowed inspections of its nuclear sites, and as late as autumn 1997, no violations were found. However, the U.S. government places little faith in the IAEA's inspection regime, noting that it failed to notice the blossoming nuclear weapon development plans in both Iraq and North Korea. Thus the U.S. government, in recognition of Iran's nuclear motivations and security strategies, will treat Iran's nuclear intentions very seriously. The U.S. intelligence community has never wrongfully suspected another nation of planning to produce nuclear weapons. The U.S. views Iran's quest for a nuclear weapon as not only a very destabilizing measure, but also as a direct threat to its national interest and the security of its regional allies, especially should research continue to place these weapons on a long-range

⁴⁴ Eisenstadt, Michael. "Living with a Nuclear Iran?" *Survival*. Autumn, 1999. Page 25. <http://www.washingtoninstitute.org/media/eisenstadt-survival.htm> Accessed on 12 September 2000.

⁴⁵ Ibid., Page 5.

ballistic missile system. Through sanctions and diplomatic pressure, the U.S. government will continue to retard Iran's nuclear pursuit and develop military strategies that allow for either a preemptive strike or a covert direct-action operation, should the need arise.⁴⁶

Chemical Weapons.

Officially, Iran has no chemical weapons. The Iranian government's United Nation's representative stated in May 1997, "the Islamic Republic rejects all allegations of any plan to produce chemical weapons in Iran."⁴⁷ The *Majlis* passed a bill banning the manufacture and deployment of chemical weapons and ratified the Chemical Weapons Convention (CWC) on 10 November 1997. However, the U.S. government thinks otherwise. Reporting in 1996, the C.I.A. stated that Iran's chemical weapons program was "among the largest in the Third World...Iran is developing a production capability for more toxic nerve agents and is pushing to reduce its dependence on imported raw materials."⁴⁸

What drives either Iran's absolute abstention from chemical weapons or its zest to create a chemical arsenal is its experience during the Iran-Iraq War. Iran claims that Iraq first used chemical weapons on its troops in June 1982. This attack used artillery-delivered non-lethal tear gas that had a limited effect on its

⁴⁶ Bahgat, Page 459.

⁴⁷ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 349.

⁴⁸ Ibid., Page 337.

Iranian targets. However, Iraq soon switched the type and the delivery means and by April 1987 was dropping aircraft-delivered bombs of mustard and nerve gas on Iranian troop concentrations. Heavy casualties were recorded by the Iranian military and the use of the chemical agents began playing a significant role in deciding the victor on the battlefield. Iran claims that Iraq continued to use chemical weapons during the war's final months, switching to more advanced substances such as nerve agents. Table 2 highlights the frequency and severity of Iraq's primary chemical weapons attacks during the Iran-Iraq War.

Table 2: Major Iraqi Chemical Weapon Attacks.

Date	Area	Type of Gas	Approximate Casualties	Target
August 1983	Haij Umran	Mustard	Less than 100	Iranians/Kurds
October-November 1983	Panjwin	Mustard	30,000	Iranians/Kurds
February-March 1984	Majnoon Islands	Mustard	2,500	Iranians
March 1984	Al Basra	Tabun	50-100	Iranians
March 1985	Hawizah Marsh	Mustard/Tabun	3,000	Iranians
February 1986	Al Faw	Mustard/Tabun	8,000-10,000	Iranians
December 1986	Umm ar Rasas	Mustard	1,000	Iranians
April 1987	Al Basra	Mustard/Tabun	5,000	Iranians
October 1987	Sumar/Mehran	Mustard/Nerve Agents	3,000	Iranians
March 1988	Halabjah	Mustard/Nerve Agents	500	Iranians/Kurds

SOURCE: Cordesman, Anthony H. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Connecticut: Praeger Publishers, 1999. Page 249.

The leadership of Iran's government will not soon forget the brutality of these attacks and their memory continues to drive Iran's desire to have an adequate response to the potential of future Iraqi chemical attacks. Though suspected of using chemical weapons on two failed attempts itself, Iran, after the cease-fire, pressed for international censure of Iraq's use of chemical weapons. The U.S. government, armed with United Nations (U.N.) investigations and evidence that documented Iran's charges, failed to condemn Iraq's actions during the 1989 Paris International Conference on chemical weapons.⁴⁹

In response to Iraq's persistent use of chemical weapons, Iran sought to create a chemical weapons program of its own. Launching a rush effort in 1983-1984, Iran began purchasing chemical defense equipment and the necessary production equipment and feederstock required to create chemical weapons. Using the guise of building up its pesticide industries, Iran was able to import enough European technology and manufacturing equipment to be able to begin producing its own lethal agents by 1986. In 1987 the C.I.A. estimated that Iran was capable of producing blood agents like hydrogen cyanide, phosgene gas, chlorine gas and a blister agent, sulfur mustard. The C.I.A. added Sarin and Tabun nerve gasses to Iran's chemical weapons capability in 1996, concluding

⁴⁹ Chubin, Page 24.

that Iran could produce 1,000 tons of chemical weapons annually and had a stored reserve of 2,000 tons of blister, choking and nerve agents.⁵⁰

India and China played a major role in increasing Iran's chemical weapons production capabilities throughout the 1990s. In May 1997 the U.S. government imposed sanctions on seven Chinese companies implicated in selling the raw materials needed to produce nerve gas. Indian companies have acted as a go-between for Iran and unknowing German pharmaceutical and engineering firms. Interestingly, an Israeli citizen living in France was convicted in an Israeli court in May 1997 for providing \$16 million worth of mustard and nerve gas production material to Iran from 1990-1995.⁵¹

Western intelligence sources are confident in their estimates that conclude Iran has the capability to not only produce chemical weapons, but also create chemical warheads for its artillery, bomb, rocket and guided missile systems. The Iranian government states the opposite. As a condition of signing the Chemical Weapons Convention, Iran must declare all of its existing chemical weapons, allow the Organization for the Prohibition of Chemical Weapons (OPCW) to have full inspection access to all production and storage sites and destroy all chemical weapons by 2008.

⁵⁰ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 342.

⁵¹ Cordesman, Anthony H. "The U.S. and Iran: Options for Cooperation". CSIS Middle East Studies Program, 10 May 1998. Page 38.
<http://www.csis.org/mideast/reports/us&iran.html> Accessed on 12 September 2000.

Given these circumstances, Iran has three choices concerning its chemical weapons program:

1. Comply fully with the CWC by declaring and destroying its chemical arsenal, while retaining a rapid breakout capability – in the form of a surge production capacity that can be activated in a matter of days in the event of a crisis or war.
2. Declare and destroy its less effective agents (such as its cyanide agents while secretly keeping stocks of more lethal agents (such as nerve gas) and retaining a surge production capability.⁵²
3. Continue its research programs focused on producing advanced chemical weapons while maintaining its stockpile of older chemical weapons. This option would place Iran in violation of the CWC and risk international censure should the Iranian strategy be made public.

It is thought that Iran will only begin reducing its chemical weapons stockpiles and its production capability if the U.N. can ensure the Iranian government that Iraq's chemical weapons program is not a viable threat.⁵³ The fact that the U.N. Special Commission (UNSCOM) inspection teams are not active in Iraq does nothing to quell Iranian fears or reduce their perceived requirements for a chemical weapons arsenal.

Iran, relying on the deterrence and the force multiplying effects of its chemical weapons, will most probably stall on a complete disclosure and inspection regime of its chemical arsenal. The Iranian government will most

⁵² Clawson, Patrick and Michael Eisenstadt, Eliyahu Kanovsky, David Menashri. *Iran Under Khatami: A Political, Economic and Military Assessment*. Washington D.C.: Washington Institute for Near East Policy, 1998. Page 84.

⁵³ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 350.

likely choose option two as its path for balancing the nation's strategic needs versus its CWC commitments. Iran will quietly work on upgrading its chemical production and manufacturing technologies and techniques, while secretly keeping some of its advanced chemical weapons capabilities, such as nerve gases, within arms reach. Iran could publicly declare and destroy some of its older, less effective chemical weapons as a means of fulfilling its CWC commitments and deceiving Western intelligence analysts.

The U.S. government considers the threat of an Iranian chemical weapons attack on its deployed military forces in the Persian Gulf or its regional allies as a serious matter. U.S. intelligence experts estimate that Iran is 2-4 years away from being able to emplace a chemical warhead on a ballistic missile system.⁵⁴ Chemical weapons, however, while easily delivered by missiles or bombs, are not limited to these employment means. Man-portable devices, such as hand grenades, can disperse chemical agents. They could also be placed within a building's central air conditioning and ventilation system. Chemical weapons could also be sprayed as an aerosol from a commercial airliner over a populated target city. However, Iran's ability to confront the massive U.S. military reprisal associated with such an act is in itself a good deterrent. Iran lacks a sufficiently effective air defense system, an anti-missile defense system and advanced armored and tactical air power formations. Therefore, Iran is incapable of

⁵⁴ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 359.

defending itself from a retaliatory attack that could easily escalate to a nuclear one, were Iran to have success in launching a catastrophic chemical attack against U.S. or allied targets.⁵⁵

Biological Weapons.

Biological weapons are far more contentious, politically damaging and aggressive than chemical weapons. Thus, Iran has more reasons to hide and deny the existence of a biological weapons program than it does for its chemical weapons agenda. Little is concretely known about Iran's biological weapons program because it is highly classified and compartmentalized, giving few Iranian government officials and Western intelligence analyst access to the full extent of the biological weapons strategy. Such a policy also makes it easier for the Iranian government to deny the existence of such a program.

The U.S. government thinks that Iran is harboring a small biological weapons program, probably initiated along side of its chemical weapons program during the beginning of the Iran-Iraq War. The C.I.A. in 1996 concluded that

“We believe that Iran holds some stocks of biological agents and weapons....Tehran most likely has investigated both toxins and live organisms as biological warfare agents. Iran has the technical infrastructure to support a significant biological weapons program with little foreign assistance.”⁵⁶

⁵⁵ Cordesman, Anthony H. *Iran and Iraq: The Threat from the Northern Gulf*. Boulder: Westview Press, 1994. Page 100.

⁵⁶ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 355.

The U.S. believes that Iran conducted secret procurement initiatives during the 1980s and 1990s, giving it access to certain dual-use technologies capable of developing certain strains of biological weapons. Iran is thought to have conducted research on lethal agents such as Anthrax, hoof and mouth disease and biotoxins. It is also assumed that Iran has the capability to store its encapsulated biological weapons, but is likely 3-5 years from placing them into a warhead of a long-range missile system.⁵⁷

Further frustrating the U.S.' threat assessment of Iran's biological weapons regime is the lack of an inspection provision under the 1972 international Biological Weapons Convention, of which Iran is an original signatory. Such an enforcement program lacks wide support due to the very intrusive nature that it would assume, given the ease of manufacturing and storing biological agents under the guise of civilian use.

While little is known about the depth of Iran's biological weapons program, plenty is known about how these weapons might be deployed. Similar to chemical weapons, biological weapons do not need to be delivered by a sophisticated system. Hand carried devices, aerosols or spores can be easily concealed and deployed. Biological agents are also easily transferred to urban water supplies.

⁵⁷ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 357-358.

What also remains an unknown factor is the Iranian government's intention of using biological weapons. Would the Iranian government actually deploy biological weapons during a large-scale combat scenario or is it simply obtaining them as a method of deterring and intimidating the U.S. government and its regional allies? Are Iran's biological weapons meant for use against invading Iraqi forces during the next Iran-Iraq War? Would the Iranian government supply a terrorist organization with a biological agent? Most experts agree that the Iranian government, unable to reasonably defend its borders against a conventional attack, is using the rumors of its biological weapons arsenal as a means of preventing such an attack. Relying on the history of the Iran-Iraq War, Iran would probably consider using a biological agent only if one were used against its troops or civilian population first or, like all nations, if it were facing imminent defeat.

The U.S. government would react to an Iranian instigated or sponsored biological weapons attack on its own deployed forces in the Persian Gulf or on its regional allies with the same tenacity and massive scale as it would use to respond to a chemical attack.

Missile Delivery Systems.

Crucial to any weapons of mass destruction is the method by which the weapon is delivered to its intended target. It has already been mentioned that because of the non-explosive nature of some WMD, notably chemical and

biological weapons, a delivery system based on a missile is not necessary. However, missiles are widely preferred because they allow the operator to be far enough from the target so as not to become a victim himself. Another advantage is that targets may be hit with WMD in a quicker, more far-reaching manner than waiting for them to be deployed by means more unconventional i.e. crossing an international border in order to release an agent into a water supply or aero-spraying a target city or battlefield.

Iran has been attempting to build its own missile production capability since the mid 1980s. This program was initiated to limit Iran's reliance on other nation's missile technologies but was overwhelmed by Iran's constant shortages of funds, skilled technicians and materials. However, this challenge was overcome by aid provided by Russia, China and North Korea beginning in 1994. These nations have provided Iran with the required equipment, machinery, components (including guidance systems) and special materials necessary for Iran to be able to produce its own variant of the Scud missile.⁵⁸ Scud missiles, originally built by the Soviet Union, are based on the World War II German V-2 rocket design and technology. They have a maximum range of 300-550 kilometers and are launched from wheel-based mobile launchers. Iran's Scud missile systems can target cities, ports and oil facilities throughout the Persian Gulf, including all of Bahrain, Kuwait, the United Arab Emirates, Qatar, the

⁵⁸ Clawson, et al. Page 78.

eastern coast of Saudi Arabia and the northern part of Oman. Scud missiles may be armed with either a nuclear, biological, chemical (NBC) or large conventional explosive warhead, and despite their inaccuracy and aging technology, present a potential threat to any U.S. troop or naval formations in these locations. It is thought that Iran has 250-300 Scud missiles that are serviced by as many as 15 mobile launchers.⁵⁹ Iran's Scud missiles form the core of its weapons of mass destruction missile delivery program.

Currently the Iranian government is funding procurement for the Shehab-3, a missile based on North Korean designed Nodong-1 missile. First tested in July 1998 and now operational, the Shehab-3 has a maximum range of 1,240 kilometers and a payload of 750 kilograms. It is capable of hitting targets within the Persian Gulf, Israel, Turkey and Egypt.⁶⁰

Research has also begun on the follow-on Shehab-4, which is based on the Russian SS-4. The SS-4 was first placed into service by the Soviet Union in 1959 and its simple design facilitates relatively uncomplicated manufacturing and operation procedures. It has a warhead capability of 1,400 kilograms, which is ideal for nuclear or biological warheads.⁶¹ The Shehab-4's increased range of 2,000 kilometers will allow it to hit the same targets as the Shehab-3, but also

⁵⁹ Cordesman, Anthony H. "Iran in Transition: Uncertain Hostility, Uncertain Threat." Testimony to the U.S. Senate Foreign Relations Committee, 6 May 1998. Page 24. <http://www.csis.org/hill/ts050698.html> Accessed on 21 September 2000.

⁶⁰ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 309.

⁶¹ Ibid., Page 315.

include targets in southern Europe as well. Iranian defense officials insist that the Shehab-4 has no military purposes and that it is intended to only carry satellites into space.

Additionally, China has provided assistance to Iran for the construction of the shorter-range NP-110 missile system. Its range of 150 kilometers allows it to still threaten targets within the Persian Gulf. China has also been named as the source of the telemetry programs for the Shehab-3 and Shehab-4 systems. Additionally, China is considered to be responsible for selling gyroscopes, test x-ray equipment and accelerometers to Iran's Defense Industries Organization for its long-range missile programs.⁶²

Iran's missile system remains an integral part of its overall WMD program. Because of its concerns about threats from the U.S., Israel and other regional nations that possess short and intermediate-ranged missile systems (see Table 3), Iran will resist calls to dismantle its missile program or reduce its research and acquisition funding.⁶³ In fact, Iran's weapons of mass destruction programs remain a popular domestic issue because of the government's inability to fund a large conventional force and its desires to increase its influence as a regional power. Iran's missiles remain a valid deterrent and are a valuable lesson learned from Iran's participation in the "war of the cities." Conducted in 1987-

⁶² Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 312.

⁶³ Clawson, et al. Page 91.

1988, Iran and Iraq launched over 600 Scud and other short-range missiles at each other's civilian population centers.

Table 3: Middle Eastern Long-Range Missile Delivery Systems.

MISSILE TYPE	USER COUNTRY	RANGE	MAX PAYLOAD
Ababil	Iraq	100-150 Kilometers	?
MGM-52 Lance	Israel (Iran?)	130 Kilometers	450 Kilograms
Iran 130/Mushak	Iran	130 Kilometers	190 Kilograms
CSS-8 M78610	Iran, Iraq	150 Kilometers	190 Kilograms
Al Faith	Libya	200 Kilometers	?
Scud B	Afghanistan, Iran, Egypt, Libya, Syria, UAE, (Yemen, Iraq?)	300 Kilometers	985 Kilograms
Project T	Egypt	450 Kilometers	985 Kilograms
Jericho (YA-1)	Israel	500 Kilometers	500 Kilograms
Scud C	Iran, Syria	500-550 Kilometers	500 Kilograms
Al Husayn	Iraq	600-650 Kilometers	500 Kilograms
Al Husayn (short)	Iraq	600-650 Kilometers	?
Al Hijrah	Iraq	600-650 Kilometers	?
Shehab-3	Iran	1,240 Kilometers	750 Kilograms
Jericho 2 (YA-3)	Israel	1,500 Kilometers	1,000 Kilograms
CSS-2 (DF-3)	Saudi Arabia	2,800 Kilometers	2,150 Kilograms

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 292.

Iran's missile systems are an obvious threat to the U.S. and its regional interests. Loaded with conventional munitions or NBC warheads, they not only threaten the U.S.' ability to muster its armed forces within the Persian Gulf and Mediterranean basins, but they also could influence decisions made in Ankara, Cairo and other regional capitols if a U.S.-Iranian conflict broke out.⁶⁴ An Iranian missile attack against the U.S.' armed forces or against its regional allies would likely result in an immediate U.S. strike on Iranian missile sites and other high-

⁶⁴ Clawson, et al. Page 80.

value Iranian targets such as weapon manufacturing installations and oil production facilities. The U.S. would not rule out the use of nuclear weapons as a response, depending on the type of warhead used and the extent of the damage caused by the Iranian attack.⁶⁵

Section Three: Terrorism.

President Clinton, commenting on the initiation of the Iran-Libya Sanctions Act of 1996 and Iran's tendency to resort to terrorism, stated "You cannot do business with countries that practice commerce with you by day while funding or protecting the terrorists who kill you and your innocent civilians by night. That is wrong."⁶⁶ Furthering the Administration's terrorism charges, the U.S. Department of State's annual global terrorism analysis stated in 1999 that Iran remained "...the most active state sponsor of terrorism."⁶⁷ The report expanded on this charge, stating that the Iranian government also aided and encouraged Hezbollah, HAMAS, the Palestinian Islamic Jihad and the Popular Liberation Front of Palestine – General Command with money, training and weapons.

⁶⁵ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 335.

⁶⁶ Mitchell, Allison. "Clinton Signs Bill Against Investing In Iran and Libya." *The New York Times*. 6 August 1996, Page A1.

⁶⁷ U.S. Department of State. 1999 Global Terrorism: Overview of State-Sponsored Terrorism. Page 2. <http://www.state.gov/www/global/terrorism/1999report/sponsor.html> Accessed on 19 September 2000.

The U.S. government claims that Iran was directly involved in several assassinations in Europe following the 1979 Islamic Revolution. These include the killings of the Shah's nephew, Prince Shahriyar Shafiq in 1979, the former commander of the Iranian Land Forces, General Ghulam Hosein Ovaisi in 1984 and more recently, former Prime Minister Shapur Bakhtiar in 1991.⁶⁸ However, the trend to use Europe as the front line for killing its anti-regime critics shifted in the mid 1990s and is now limited to the area encompassing central and northern Iraq. Driving this modification was the French trial of Bakhtiar's assassins that not only put a severe strain on French-Iranian relations but also caused a French court in 1995 to sentence a high ranking Iranian civil servant, *in absentia*, to life in prison for his connection with the killing. The German judiciary system did the same with Ali Fallahiyan, the Iranian Minister of Information and Intelligence for his connection to the assassination of four Iranian Kurdish exiles living in Berlin in 1992. The geographical shift of Iran's terrorist operations is seen as the Iranian government's acknowledgement of the political and economic cost associated with terrorism and the need to develop its high-profile actions into more subtle acts in less politically sensitive locations.⁶⁹

The U.S. government has also implicated Iran in supporting organizations that have been involved in acts of terrorism. Ranging from money to arms and weapons training, Iran has supported Hezbollah in their fight against Israeli forces

⁶⁸ Kemp, Page 84.

⁶⁹ Clawson, et al. Page 87.

in southern Lebanon. Hezbollah has also been implicated in the 1983 bombing of the U.S. Marine Corps barracks in Beirut and the 1992 bombing of the Israeli embassy in Buenos Aires, Argentina. Iran is also suspected of providing funds for the HAMAS organization as well as other types of unspecified support (most likely military arms and training) through the HAMAS office in Tehran. HAMAS, in support of its fight against the Israeli occupation of Palestine, also receives discrete funding from individual citizens within Arab nations friendly to the U.S. The U.S. government also suspects Iran of aiding through financial and material means the Popular Liberation Front of Palestine and to a lesser, uncertain degree, the Palestinian Islamic Jihad.

The U.S government claims that Iran's Ministry of Intelligence and Security (VEVAK) has supported extremist organizations in Algeria, Tunisia, Turkey, Morocco and Egypt, all of whom have been involved in acts of terrorism. The Clinton Administration, despite Saudi insistences to the contrary, also believes that Iran was involved with the 1996 bombing of its Air Force barracks in eastern Saudi Arabia. The Administration's largest fear regarding Iranian sponsored terrorism is the vulnerability of its military forces deployed in the Persian Gulf and the possibility that elements of Iran's chemical and biological arsenal might be placed in the hands of terrorist organizations. It is also particularly concerned with Iranian sponsorship of groups that reject the Israeli-Palestinian Peace Process and their attempts to block it by means of violence.

The Iranian government denies the charge of condoning terrorism and supporting groups who use it. This has especially been the case since the inauguration of President Khatami. Iran's Foreign Minister, Kamal Kharrazi, denounced a terrorist attack on tourists by Egypt's underground Islamic group in 1997 and Mahmoud Mohammadi, a spokesman for the Iranian Foreign Ministry condemned a series of 1998 attacks on Algerian civilians.⁷⁰ Highlighting his government's denial of being involved with terrorism, President Khatami stated in 1998 that "Terrorism should be condemned in all of its forms and manifestations; assassins must be condemned."⁷¹ Khatami has also called for the release and publication of evidence that links the Iranian government with acts of terrorism, something that the U.S. government and other Western nations refuse to provide, fearing the disclosure of their intelligence sources. What troubles the Clinton Administration is Khatami's potential inability to enforce his government's denunciation of terrorism. Much of the Iranian economic and military support received by HAMAS and similar organizations comes not from the Iranian government itself, but from *bonyads*, which are politically, well-connected charities.⁷² Because these institutions enjoy the patronage of Iran's

⁷⁰ Clawson, et al. Page 86.

⁷¹ Amanpour, Christian. Transcript of Cable News Network interview with Iranian President Mohammad Khatami. 7 January 1998. Page 3. <http://www.american-iranian.org/Pages/ARTINT.HTM> Accessed on 19 September 2000.

⁷² Clawson, et al. Page 91.

Supreme Leader, they wield enormous political and economic clout, which allows them to operate in defiance of current Iranian governmental policy.

The U.S. State Department, however, admits that Iran is reducing its overall trend in directing global terrorism. The U.S. government claims that Iran was involved in 45 significant terrorist attacks in 1987, 24 in 1989, 10 in 1990, five in 1991, 20 in 1992, six in 1993, six in 1994 and six in 1995.⁷³ While this appears to support Khatami's claim, it must be pointed out that President Khatami does not control the state organizations that have been implicated in promoting terrorism, notably the Ministry of Intelligence and Security, the Ministry of Interior and the Iranian Revolutionary Guard Corps. These organizations are led by the hard-line clergy and are not answerable to President Khatami.

The Iranian government considers itself to be involved in a low-intensity war with at least two terrorist groups – the Mujahadeen-e Khalq (MEK) and the Kurdish Democratic Party of Iran (KDPI). The Iranian responses to many of the MEK's attacks have been to consider these to be acts of terrorism by the U.S. government, mainly because they have happened outside of Iran's borders. The U.S. deems the 1993 killings of Taha Kirmenned, a member of the KDPI in Turkey, the wounding of a KDPI leader by letter bomb in Sweden and the killings of two MEK members in Iraq as acts of terrorism.⁷⁴ The MEK, operating from Iraqi bases, attacked 13 separate Iranian embassies in April 1992, assassinated the

⁷³ Cordesman and Hashim, Page 147.

⁷⁴ Ibid., Page 157.

Iranian Armed Forces Deputy Chief of the Joint Staff, Brigadier General Ali Sayyad Shirazi in April 1999 as well as regularly conducting cross-border harassment attacks into Iran.

Iran's leaders see the disparity of defining terrorism as the primary difference between the U.S. and Iran regarding terrorism. The Iranian government claims that the U.S. holds Iran to a higher standard of behavior and refuses to admit publicly that most nations in the region are involved in extra-judicial assassinations.⁷⁵ Since its inception, Israel has been active in hunting down Hezbollah and Palestine Liberation Organization leaders in Lebanon. Israel has admitted to the Mossad's botched attempt to kill HAMAS leader, Khaled Mashaal, in Jordan by lethal injection in October 1997. Turkish military forces have killed both Turkish and Iraqi members of the Kurdistan Worker's Party (PKK) in northern Iraq. Libya and Syria have also long supported militant groups, and Saudi Arabia continues to be a source of funding for Islamic activism in many nations in the region.⁷⁶ The Iranian government claims that the U.S.' response to these governments has not been relative to the measures enacted against Iran. Iran views its external actions as appropriate given the framework of the region's violent realities.

⁷⁵ Fuller, Graham E. "Repairing U.S.-Iranian Relations". *Journal: Middle East Policy*. October 1998. Page 2. http://www.mepc.org/journal/9810_fuller.html Accessed on 20 June 2000.

⁷⁶ Hibbard, Scott W. and David Little. *Islamic Activism and U.S. Foreign Policy*. Washington D.C.: Endowment of the United States Institute of Peace, 1997. Page 35.

Iran also differs with the U.S. in defining what constitutes a terrorist. President Khatami stated "...supporting peoples who fight for the liberation of their land is not, in my opinion, supporting terrorism. It is, in fact, supporting those who are engaged in combating state terrorism."⁷⁷ Iran views organizations such as Hezbollah, HAMAS and the Popular Liberation Front of Palestine as freedom fighters with legitimate goals who are engaged in combat with an oppressive, occupying enemy. According to the Iranian government, these groups, much in the way that the U.S. government supported the Afghan *Mujahadeen* after the 1979 Soviet invasion of Afghanistan and the *Contras* during their fight with the communist *Sandinistas* in Nicaragua during the 1980s, deserve aid and support.

The primary debate in the Clinton Administration regarding Iranian terrorism is not whether Iran supports extremist groups or conducts intelligence operations and assassinations overseas. It considers Iran guilty of all of these charges. The question is to what extent are these acts committed and what are their scale and importance. Iran's support of organizations that seek to end the Israeli-Palestinian Peace Process through the instigation of violence lands Iran in direct conflict with the U.S. government. Security experts are unsure whether the Iranian government would ever use terrorism against U.S. interests in the Persian Gulf or other overseas areas, but they are reasonably sure that Iran has the

⁷⁷ Amanpour, Page 3.

potential to do so. Anti-terrorism organizations within the U.S. government have spotted Iranian agents casing U.S. bases, installations and personnel in both the Middle East and Europe. The potential for these acts matched with Iran's support for organizations that seek to derail the Israeli-Palestinian Peace Process demands a strong U.S. commitment to stop these Iranian efforts as well as guard U.S. interests against a future attack. However, Iran's efforts to curb terrorist attacks within its own borders must be seen by the U.S. as attempts to safeguard Iranian security and unfortunately, within the accepted rules of the region's nations, including several U.S. allies.

Section Four: Opposition to the Israeli-Palestinian Peace Process.

Directly related to the Clinton Administration's charge that Iran is a primary supporter of regional terrorist organizations, is its indictment of Iran's persistent opposition to the Israeli-Palestinian Peace Process. This series of direct negotiations is a fundamental aspect of the U.S. government's foreign policy regarding stability in the Middle East. The U.S. sees itself as a key architect and sponsor of the process that is carefully drawing the Israeli government and the Palestinian National Authority closer to a peacefully negotiated agreement. Affirming its commitment to this process, the Clinton Administration has stated

that "...[we will] continue our steady, determined leadership – standing with those who take risks for peace, standing against those who would destroy it."⁷⁸

Iran, at times, has appeared more Palestinian than the Palestinians themselves regarding the struggle with Israel. Besides openly funding and supporting Hezbollah and HAMAS, Iran sponsored the 1991 "International Conference to Support the Islamic Revolution of Palestine" and pledged the full support of the Iranian government for Palestine's Islamic uprising until the complete overthrow of Israel.⁷⁹

Yet publicly, the Iranian government's attitude regarding the Israeli-Palestinian Peace Process has been contradictory and evolving. In 1992 the Iranian government stated that "...it has always been clear and evident that peace talks will bear nothing for Arabs but failure and defeat."⁸⁰ In 1997 President Khatami stated that his government "...will take no actions to try to stop the peace talks and that it will accept any outcome that is acceptable to the Palestinians and to Israel's neighbors."⁸¹ Thus the Iranian government has abandoned its more ideological approach in favor of a more pragmatic view of the Israeli-Palestinian Peace Process.

⁷⁸ U.S. National Security Council. National Security Strategy Report: December 1999. <http://www.whitehouse.gov> Accessed on 31 October 2000.

⁷⁹ Kemp, Page 86.

⁸⁰ Ibid., Page 87.

⁸¹ Sick, Gary. Remarks on PBS's Online Newshour Forum. 26 January 1998. Page 2. <http://www.pbs.org/newshour/forum/january98/iran2.html> Accessed on 20 June 2000.

The Iranian government's policy shift may be due to a realization that the Israeli-Palestinian Peace Process is probably a "bridge too far." Recent events, such as the 1996 election of conservative Prime Minister Binyamin Netanyahu or the latest hostilities between Israel and the Palestinians, have demonstrated to the Iranian government that internal confrontations will dictate the Peace Process' failure and that external criticism is not needed. This is clear in President Khatami's 1998 comment, that though his government will not stand in the way of the peace talks, he believes that "it will not succeed, because it is not just and does not address the rights of all parties in an equitable manner."⁸²

It is also reasonable to think that Iran has recently considered the economic costs associated with opposing the Israeli-Palestinian Peace Process and its large international concern. Blocking the process does little to endear Iran to the various governments that it relies on to assist its stagnant economy. Iran may also consider its lack of victories in attempting to export its Islamic revolution as a reason to modify its position and take a more neutral stance in assessing the Israeli-Palestinian Peace Process.

The U.S. government is encouraged with Iran's policy shift regarding these negotiations. In and of itself, the modification has the basic elements required to cause a crack in the wall of distrust between the U.S. and Iran. However, this will not happen if Iran continues to send any type of aid, other than

⁸² Amanpour, Page 3.

humanitarian assistance, to Hezbollah, HAMAS, the Palestinian Islamic Jihad or the Popular Liberation Front of Palestine-General Command. President Clinton, in recognizing Iran's new point of view regarding the Peace Process, stated that

“We would not expect any Islamic state...to say it had no opinions involving what it would take to have a just and lasting peace settlement in the Middle East....We would never ask any country to give up its opinion on that. But we would ask every country to give up the support, the training, the arming, the financing of terrorism.”⁸³

The U.S. considers the threat of terrorism associated with the derailment of the Israeli-Palestinian Peace Process as a direct attack on its national interest and will strongly attempt to hinder such operations and their responsible organizations or governments.

Section Five: Iran's Conventional Weapon Threat.

Iran's government, like any sovereign nation, reserves the right to maintain an adequate military that stands ready to defend the nation's borders and protect its national strategic interest. The Iranian government takes the matter of protecting its sovereignty seriously given its history of foreign intervention during the 19th and 20th centuries. The governments of Russia, Great Britain and the U.S. deployed military forces in Iran during World War II, seeking among other things, influence and a means of controlling Iran's oil resources. Later, in 1980, Iran was

⁸³ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 6.

again the victim of a foreign military invasion as Iraq attempted to topple Iran's unstable, post-Revolution government.

These events, plus the devastating destruction that Iran's military equipment suffered during the Iran-Iraq War have been a constant reminder to the Iranian government that improving and modernizing its military forces is of critical importance.⁸⁴ Iran also has suffered from being cut off from desperately needed spare parts and technical assistance from the western nations that provided the bulk of Iranian military hardware during the Shah's reign. The result of this has been that many of Iran's once modern weapon systems have either become obsolete due to lack of technical updating, or completely unusable due to a lack of maintenance parts. This has fueled the Iranian government's insistence that military independence is also in Iran's national interest.

That Iran is in the middle of a conventional arms buildup is not in doubt. While concentrating on the more cost effective weapons of mass destruction, Iran, since the end of the Iran-Iraq War has annually spent billions of dollars to revamp its conventional forces. This buildup, however, pales in comparison with the arms level of the Shah's Iran. Currently, Iran only has one-third to one-half of the Shah's 1978-1979 military equipment level.⁸⁵ Iran's Army has only half as many Main Battle Tanks (MBT) as it did during the Shah's reign and its artillery and helicopter forces remain technically mired in the 1970's era technology in which

⁸⁴ Iran lost 40-60% of its major Land Force weapon systems during the Iran-Iraq War.

⁸⁵ Kemp, Page 53.

they were procured. Meanwhile, Iran's neighbors, notably Iraq and Saudi Arabia continue to reinforce and enlarge their conventional and WMD arsenals. A region-wide arms race is underway and Iran is competing in it with a weak economy and under the shadow of U.S. sanctions.

Iran's large population affords it the ability to have, in comparison to its Persian Gulf neighbors, a large standing military. Its 70 million citizens, in concert with an annual population growth rate since 1990 of 2.55% makes it not only the most populated nation in the Persian Gulf, but also the 14th largest population in the world.⁸⁶ The result of this was Iran's ability in 1998 to field a 513,000 man military, of which 350,000 were in the Army, 120,000 were in the Revolutionary Guards, 18,000 were in the Air Force, 12,000 were in the Air Defense Force and 18,000 were in the Navy. This is in relation to Iraq's 382,500 military personnel, Saudi Arabia's 161,500, the United Arab Emirates' 70,000, Oman's 43,500, Kuwait's 16,600, Qatar's 11,100 and Bahrain's 8,100.⁸⁷

What remains of critical importance is the condition of Iran's military equipment, both old and new, and how it compares with the equipment of its Gulf neighbors. The Iranian military learned many valuable lessons from the Iran-Iraq War, one of them being that sheer numbers does not equate to victory on the battlefield. Thus military hardware, especially modern equipment that enables a

⁸⁶ *World In Figures*. *The Economist*. New York: John Wiley & Sons, Inc, 1999. Page 146.

⁸⁷ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 90.

military to fight at night and in adverse weather conditions, is now a primary concern. Also significant is the Iranian military's lack of quality training, especially in the arenas of combined arms operations and joint warfare capabilities.⁸⁸ Not training or planning on these types of military operations significantly decreases the capability of Iran's military to operate in a decisive, victorious manner.

The Iranian Land Forces.

Iran's Land Forces consist of a "hodge podge" of different equipment with little interoperability, common manufacturers or spare parts sources. Ranging from 540 worn out, underarmed and underarmored British Chieftain and U.S. M-47/48 Main Battle Tanks to 200 Soviet and Polish supplied modern T-72 Main Battle Tanks, Iran's armored punch, initially looks formidable. In 1998, Iran had the second largest inventory of MBT within the Persian Gulf, as shown on Table 4.

Table 4: Total Main Battle Tanks Inventories of 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
1,410	2,700	810	106	249	117	34	231

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 103.

⁸⁸ Combined arms operations are the ability to have, for example; artillery, armor and infantry forces work in tandem in order to produce a "team effort" of destructive effects upon an enemy force. Joint warfare takes this level of coordination one step higher and matches the actions of the Army forces with those of the Air Force and Navy. Communications, timing, rehearsals and logistics are critical during either of these types of military operations.

However, Iran's armored strength weakens considerably when only modern MBT are compared. These tanks are defined as the Soviet/Russian designed T-72, the Yugoslavian M-84, the U.S M-60 A2/A3 and M-1A1/A2, the British Challenger and the French Le Clerc. All of these tanks allow an armored force to fight at night and under limited protection from the effects of nuclear, biological and chemical weapons. All other types of tanks (ones that are "non-modern") have decreased capabilities in operating in limited vision or in NBC environments. Table 5 portrays Iran's modern MBT (T-72s) in relation to the modern MBT arsenals of the rest of the Persian Gulf nations.

Table 5: Operational Holdings of Modern Tanks.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
200	700	765	106	249	111	0	150

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 103.

Removing Iran's aging tank's from the equation, its MBT fleet moves from the second largest in the Persian Gulf to the fourth largest, which demonstrates Iran's weakened capability to conduct an armored battle on a modern battlefield.

Iran's Land Forces face the same dilemma in its ability to field a large, modern force of other armored fighting vehicles (OAFV). These vehicles are largely used to transport mechanized infantry units as well as perform reconnaissance and scout missions. Table 6 demonstrates the strength of Iran's OAFV fleet in comparison to the rest of the Persian Gulf nations.

Table 6: Total Other Armored Fighting Vehicle Inventories of 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
965	2,400	3,317	281	329	109	248	894

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 106.

Iran possesses the fourth largest arsenal of total OAFVs within the Persian Gulf, relying heavily on aging British supplied Scorpions, Russian PT-76s and U.S. supplied M-113 armored personnel carriers. Iran supplements this force with Russian BMP-1 and BMP-2 variations, which while considered modern OAFVs, lack thermal vision systems as well as a modern fire control system for the primary direct fire and anti-tank weapon systems.

However, Iran's Land Forces hold a numerical advantage in artillery weapons. Iran relied heavily on artillery fire during the Iran-Iraq War, but lacking a modern fire direction system capability, failed to achieve much success.

Table 7 shows the artillery arsenals of the Persian Gulf nations.

Table 7: Total Operational Self-Propelled and Towed Tube Artillery and Multiple Rocket Launcher Inventories in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
2,943	2,100	520	58	68	109	44	299

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 116.

Of Iran's 2,943 artillery systems, 1,995, or nearly two-thirds of them are towed artillery pieces. These weapons, while often of larger calibers than self-propelled

artillery pieces, must be towed behind wheeled vehicles, typically cargo trucks. This fact limits the ability of Iran's Land Forces to provide supporting artillery fire to faster moving armored forces as well as reduces the capability of its artillery units to move on terrain other than road networks. Additionally, towed artillery systems do not have the capability to transport their own ammunition, thus requiring further logistical support. Moreover, these artillery pieces do not afford any armored protection to their firing crews. Towed artillery is an excellent defensive weapon but fails to amount to a formidable offensive threat.

Iran's Land Forces were pioneers in the Persian Gulf region regarding the use of attack helicopters.⁸⁹ However, the Shah quickly inflated the Iranian Land Forces' helicopter units, without staffing them with an adequate training and maintenance program. As a result, Iran's attack helicopter fleet, primarily consisting of U.S. supplied Vietnam War era Sea Cobras (AH-1) have not only been without a steady supply of repair parts for the past twenty years, but its personnel have lacked an adequate core of trained pilots and tacticians. Table 8 shows the status of Iran in relation with the rest of the militaries of the Persian Gulf nations regarding attack helicopters.

⁸⁹ Attack helicopters play an important role to the commander of the Land Forces. These helicopters allow him to engage targets beyond the range of his artillery, thus destroying enemy forces and their logistics before they have entered the main battle area. Helicopters allow the Land Forces commander to accomplish this without relying on the air force.

Table 8: Total Operational Attack Helicopters in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
100	120	12	10	16	0	20	42

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 159.

However, Table 9 demonstrates that when the amount of modern attack helicopters is compared, Iran moves from having the second largest fleet to being tied with Bahrain and Oman for having no modern attack helicopters at all. Modern attack helicopters are defined as the U.S supplied AH-64, the Russian Mi-24 and Mi-25 or the French SA-330, SA-342 and the AS-332F. These helicopters have thermal imaging sights as well as have the capability to fly in adverse weather conditions.

Table 9: Total Modern Attack Helicopters in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
0	65	12	0	8	0	20	35

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 159.

Without a modern attack helicopter fleet, Iran's potential to strike at targets deep behind the forward battle area is severely constrained, thus denying the commander of the Iranian land forces this force-enhancing capability.

The Iranian Air Force.

Iran's Air Force has suffered from the same lack of spare parts for its U.S. and western supplied combat aircraft as the land forces have. Aging U.S. F-4 and F-14 fighter/bomber aircraft, originally supplied during the Shah's reign, are very limited in their ability to operate as well as accurately deliver ordnance. However, the Iranian Air Force has been able to keep many of these aircraft operational and, in concert with its other combat aircraft, maintains the third largest fleet of combat aircraft in the Persian Gulf.

Table 10: Total Operational Combat Aircraft in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
297	353	336	24	76	47	11	108

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 155.

The Iranian Air Force has been able to update its fleet of combat aircraft with the addition of limited amounts of modern Russian aircraft. The planes, the Su-24D and the Mig-29, give the Iranian Air Force the capability to not only deliver air-to-surface missiles and bombs but also perform escort and air superiority missions. However, in comparing the amounts of modern combat aircraft, Iran's advantage over the majority of the Persian Gulf nations is eclipsed by Saudi Arabia's overwhelming numerical superiority.⁹⁰

⁹⁰ Modern Combat Aircraft are defined as the U.S. supplied F-15, F-16 and F-18, the Russian Su-20, Su-24, M-25 and the Mig-29, the French Mirage F-2 and Mirage 2000 and the British

Table 11: Total Modern Combat Aircraft in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E
60	81	197	12	40	0	5	45

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 155.

Iran's Air Force suffers from the after effects of the purge of U.S. trained pilots during the Revolution as well as the retirement of those that survived the purges. Its principal training consists of small numbers of aircraft acting as interceptors. The Iranian Air Force has not demonstrated the capability of flying large numbers of aircraft, nor the ability to execute effective command and control. It did, however, have a front row seat to the U.S.' tactics during the Gulf War and subsequent military actions against Iraq and has learned a great deal about modern air tactics and the methods that the U.S. Air Force and Navy employ them.⁹¹

The Iranian Navy.

Iran's Navy is the largest of all of the nations of the Persian Gulf. Its military ships range from submarines and major surface combats ships to coastal patrol crafts, landing crafts and mine vessels. Iran holds a clear edge in its ability

Tornado. These aircraft possess advanced avionic, targeting and imagery systems, making them not only easier for the pilot to fly, but also allowing the pilot a greater opportunity to hit the target.

⁹¹ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 167.

to patrol and defend its long Persian Gulf coastline while at the same time influencing other nations' interest in the Gulf.

Table 12: Total Naval Ships in 1998.

Iran	Iraq	Saudi Arabia	Bahrain	Kuwait	Oman	Qatar	U.A.E.
87	14	42	18	13	21	8	26

Source: Cordesman, Anthony H. *Iran's Military Forces in Transition*. Connecticut: Praeger Publishers, 1999. Page 190.

Much of Iran's navy is based at Bandar Abbas, which escaped major damage during the Iran-Iraq War. This port is the home of Iran's principal ships – its destroyers, frigates and submarines. Iran's three destroyers were decommissioned in 2000.⁹² They were constructed in 1943 and 1944, refitted last in 1971-1972 and could be brought back to active service in the event of a low-level conflict. Any higher intensity action would see these destroyers quickly become targets due to their inability to adequately respond to anti-ship missiles or air strikes.

Iran's three frigates were originally supplied by Great Britain and remain in active service. One was sunk during a conflict with the U.S. Navy in 1988, but was raised, repaired and is occasionally deployed.⁹³ These ships are equipped with a surface-to-surface missile launcher and a 4.5" gun. The missiles and their guidance and targeting systems, last updated in 1977, are of questionable

⁹² Ibid. Page 191.

⁹³ Ibid., Page 193.

reliability and effectiveness, due largely to the capability of western electronic countermeasures.

Iran's submarine force consists of three Russian Kilo-type diesel submarines. Originally purchased in 1992 for \$600 million each, delivery was not complete until 1997. The Kilo is a relatively advanced and quiet submarine. It was originally designed in 1980 and has the capability to carry a mix of 18 homing or wire-guided torpedoes or 24 mines. Intelligence reports suggest that, as a part of the Kilo submarine deal, Russia sold Iran over 1,000 mines equipped with modern magnetic, acoustic and pressure sensors.

While there is no doubt that Iran can effectively use its submarines, it does so in an environment that is unfriendly to submarine warfare. The Persian Gulf, unlike the Atlantic or Pacific Oceans where submarine warfare has been performed and perfected, is neither cold nor deep. The high temperatures of the Gulf's water in unison with the limited flow of fresh water and subsequent high salinity rate, disturbs both surface and submarine sonar systems, with the advantage going to surface ships and maritime patrol aircraft equipped with the latest electronic and detection hardware.⁹⁴

The Persian Gulf's shallowness also plays a large factor in submarine operations. With its deepest point being 88 meters, the Gulf has a large portion of its waters that are less than 20 meters deep. This places the Iranian submarine

⁹⁴ Ibid., Page 193.

force in a very compromising position in a majority of the Gulf's waters, as the Kilo's minimum operating depth is 45 meters.⁹⁵

The Gulf of Oman is more suitable for the Iranian submarines, but such operations would expose them to maneuvers from not only U.S. and British nuclear attack submarines, but surface-based anti-submarine efforts as well.

Iran's navy has been and can be used by the Iranian government to threaten, intimidate and cause significant short-term damage to shipping within the Persian Gulf. Using mines, anti-ship missiles and long-rang torpedoes, the Iranian Navy can conduct both conventional and unconventional attacks. However, it is no match for the weight of the U.S. Navy, especially in coalition with other western nations and the Gulf Cooperation Council. The Iranian Navy has announced that it is seeking to modernize its destroyer squadron and anti-ship missile systems. To date it has failed to produce or procure such items, nor do intelligence analysts think it will do so before 2010.⁹⁶

The Iranian Military's Future Conventional Arms Considerations.

The Iranian government is in an arms race with the rest of the nations that border the Persian Gulf. Being caught militarily unprepared by Iraq in 1980 has not only motivated Iran, but since the 1990 Iraqi invasion of Kuwait, the GCC nations find themselves inspired to modernize their militaries as well. Iran's

⁹⁵ Ibid., Page 206.

⁹⁶ Ibid., Page 206.

focus, however, is to mainly update and restores its military to a level worthy of protecting its national interest, rather than competing directly with the GCC.

Nonetheless, large amounts of money are being spent to purchase conventional arms in the Persian Gulf. During 1991-1994, the first three years after the Gulf War, Saudi Arabia ordered \$35.9 billion worth of arms, as compared to the U.S.' estimate of \$6.7 billion by Iran.⁹⁷ Kuwait understandably spent \$15 billion/year during the first two years after the Gulf War, reducing this amount to \$3.2-3.6 billion annually to maintain its military edge. The United Arab Emirates spends \$1.8-2.2 billion annually on its military forces, while Saudi Arabia has leveled its military expenditures to \$17.2-20 billion annually.⁹⁸

Iran's military expenditures have increased during the past decade, partly in response to its commitment to modernize its military, but also in response to Iran's high inflation rate. Iran's average inflation rate during 1990-1997 was 24.3%.⁹⁹ This meant that annually, more defense dollars were needed to maintain the same level of defense procurement and operations. It is estimated that Iran's military budget was \$2.3 billion in 1994-1995, \$2.46 billion in 1995-1996, and \$3.9 billion in 1996-1997. President Rafsanjani called for a 44% increase in the defense budget in 1997-1998 due to an increase in oil prices, but intelligence

⁹⁷ Amirahmadi, Hooshang and Eric Hooglund, eds. *US-Iran Relations: Areas of Tension and Mutual Interest*. Washington D.C.: The Middle East Institute, 1994. Page 15.

⁹⁸ Cordesman. "Iran in Transition: Uncertain Hostility, Uncertain Threat" Page 15.

⁹⁹ *World In Figures*, Page 146.

analysts question if this policy was ever implemented.¹⁰⁰ Conversely, having to contend with a sharp drop in oil prices, President Khatami allocated only \$1.65 billion to the Ministry of Defense for the 1998-1999 military budget.

Iran's military budget concerns are directly linked to the government's oil revenues and the success that it has in reforming the economy. These economic factors play a more important role in the outcome of Iran's conventional weapon rebuilding scheme than will its military ambitions and strategies. High inflation rates and low international oil prices will retard Iran's ability to purchase conventional weapons, as will the sanctions and pressures of the U.S. government to halt Iran's military expansion.

Facing these glaring factors, the Iranian government has eventual ambitions of reducing its reliance on Russia, China and North Korea as sources of major weapon systems. These nations, while eager to sell arms to Iran, have proven to be unreliable in the long-term for providing quality products backed by solid technical and maintenance support. Thus Iran has invested in its own military industries that have been able to, on a limited scale, upgrade foreign supplied weapon systems or manufacture their own. Iranian plants currently can produce nearly 50 types of ammunition, from small arms to tank and artillery rounds and rockets. These manufacturers can also build mortars, light anti-tank weapons and automatic weapons. They also have the ability to fabricate a limited

¹⁰⁰ Cordesman. *Iran's Military Forces in Transition: Conventional Threats and Weapons of Mass Destruction*. Page 16.

amount of spare parts for Iran's Western-supplied tanks and other armored fighting vehicles. Iranian defense industries have also created prototypes of an MBT, a light tank, an armored personnel carrier, a combat jet aircraft, two varieties of coastal patrol boats and a midget submarine. These production models have largely been copies of foreign supplied weapon systems and have not been mass-produced.

Despite the claims in 1997 by Iran's Minister of Defense and Armed Forces Logistics that Iran had reached total self-sufficiency in arms and ammunition production, Iran still faces major challenges in mass producing sophisticated guided missile systems and advanced conventional arms unless it imports some of the primary components necessary to construct them.¹⁰¹ Thus, Iran will produce what it can but procure complete weapon systems or their major components whenever and wherever they are available, primarily from Russia, China and North Korea. Iran's capability to gain self-reliance in its own arms production will depend mainly in how much support it can expect from these three nations. Russia, China and North Korea hold the keys to selling and licensing the production plants and rights necessary for Iran to manufacture more conventional arms and WMD delivery systems. The U.S. government has and will continue to pressure these nations, as well as Pakistan, Argentina, Germany

¹⁰¹ Cordesman and Hashim, Page 189.

and India, to block the transfer of certain key manufacturing and production technologies in order to limit Iran's ability to produce conventional weapons.

Section Six: Summary.

The government of the Islamic Republic of Iran has learned many lessons during its 20 years in power about the necessity of maintaining adequate military forces. Its war with Iraq and its spectator role during the Gulf War demonstrated to Iran's government that it is not only surrounded by potential foes, but that its military forces, in their current condition, are hopelessly weak. Thus Iran has embarked on the tremendous undertaking of modernizing its military as well as confronting its adversaries and their causes, who in Iran's opinion, seek either to bring a new government to Iran or to harm Islam.

The U.S. government has a different spin on Iran's military and security endeavors. It sees Iran's ambitions of creating a modern military, complete with nuclear, biological and chemical weapons, as well as long-range delivery systems and conventional arms as nothing more than a hegemonic threat to the security and stability of the Persian Gulf. It also views Iran's ties with groups that oppose the Israeli-Palestinian Peace Process as a means of exporting the Islamic Revolution and a positive indicator that the Iranian government supports state-sponsored terrorism. For these reasons, the U.S. government perceives a direct threat to not only its citizens, via long-range missiles and weapons of mass destruction, but also to its national interest, which encompass the Israeli-

Palestinian Peace Process and the ability to freely move oil out of the Persian Gulf. The result of these threats have been to install a regime of economic sanctions meant to bend the Iranian government's will to pursue its policies of WMD, terrorism and opposition to the Peace Process, as well as pressure other nations to limit their economic and diplomatic relations with Iran.

Some of the U.S. government's threat assessments are accurate and warrant a heavy-handed response, especially in regards to Iran's weapons of mass destruction program. Other threat estimates, principally, Iran's conventional military build up, are inflated and are better depicted as a sovereign nation attempting to rebuild its national defense rather than an aggressive state bent on invading the rest of the Persian Gulf nations.

Iran's commitment to establishing a civilian nuclear power program, with the ability to transfer these technologies and, more importantly, the fissile material to its military, is a concern for which the U.S. should have a healthy respect. Many U.S. foreign policy makers point to the fact that Iran holds 89 billion barrels or 10% of the world's proven, economically recoverable oil reserves and 21 trillion cubic meters or 15% of the proven natural gas reserves, yet pursues a program to produce nuclear generated power.¹⁰² Iran's oil and gas reserves are an abundant source of energy production potential and override the need to invest in nuclear power. Thus it is evident to the U.S. government that

¹⁰² Ibid., Pages 91-92.

Iran's nuclear ambitions are not entirely peaceful. While not seeking to immediately construct a nuclear weapon, Iran is most likely actively seeking the technology so that it could simultaneously build a nuclear weapons program alongside its power generation program with the ability to construct a nuclear weapon in order to respond to a future escalating high-intensity conflict or merely demonstrate that it has the capability to respond to a nuclear attack, i.e. Pakistan's actions after India tested a nuclear weapon in May 1998. This sort of action would bring further world condemnation of Iran's actions, especially since it is a signatory of the Nuclear Proliferation Treaty, but this might be a price that the Iranian government is willing to pay, considering its history of foreign intervention, Iraqi weapons of mass destruction and stringent economic sanctions.

It is therefore consistent with U.S. interests to block technology transfers that would allow Iran to construct further nuclear power generation plants. The threat (to U.S. strategic interests) of a nuclear weapon in the hands of the current Iranian government is too great, especially since President Khatami's power has very limited influence in Iran's security matters. Responsibility for Iran's security forces and their strategies lies squarely with the hardliners, who are less receptive to the conciliatory acts and ideas of Iran's moderates. Any signs of a swelling Iranian nuclear energy program would come under the close scrutiny of the U.S. government. The U.S. would deem demonstrations of an active Iranian

nuclear weapons research scheme as a blatant threat and would most likely stop this effort with a military response.

However, blocking Iran's nuclear ambitions is a two-sided sword. The Iranian government has a long history of stating its desires for nuclear energy. The Shah, who viewed nuclear energy production as a sign that Iran was a progressive nation, initiated this strategy. These efforts continued after the Islamic Revolution. The U.S. government may be able to block Iran's nuclear technology procurement capabilities, but not its desires for a nuclear program. Efforts must ensure that Iran does not secretly purchase untested or inferior parts that might result in a nuclear reactor operating with questionable safety systems. Such an Iranian nuclear reactor could lead to a Chernobyl-like disaster, radiating not only large population centers, but also endangering the entire Gulf's oil production capabilities. As the 1986 catastrophe showed the world, "...a nuclear accident somewhere is a nuclear accident everywhere."¹⁰³ Maintaining Russian and Chinese cooperation in this matter, due to their previous efforts to aid Iran's nuclear program, is of critical importance.

Iran's chemical and biological weapons programs were both born out of the necessity to respond to the threat of actual Iraqi chemical weapon attacks during the Iran-Iraq War. Both of Iran's chemical and biological weapons fall

¹⁰³ Meshkati, Najmedin and Guive Mirfenderski. "U.S. policies for 'containment' fail; this country needs to see Iran as part of the solution in the Middle East" *The Baltimore Sun*. 14 December 1997, Page 8F.

under international scrutiny as Iran is a signatory of the Chemical Weapons Convention, the Biological Weapons Convention as well as a member of the Organization for the Prohibition of Chemical Weapons. Iran has yet to comply with its full treaty commitments and probably will not do so as long as an unchecked Iraqi program continues to exist.

Iran's capability to use its chemical and biological agents in the warheads of long-range missiles is currently limited but expected to expand within the next 2-4 years. What further troubles the U.S. government is the fact that these weapons do not require a warhead, rather they can be used on population centers from devices such as surreptitious aerosol spraying systems or by placing these agents in the heating/cooling systems of large buildings.

Regardless of the delivery means, the discovery that the Iranian government was responsible for the use of these WMD would probably cause the U.S. government to respond in a massive military manner, such that the Iranian military would not be able to repel. The U.S. government seems content with allowing this to act as a deterrent, while at the same time using inspection programs such as those prescribed by the OPCW. Since Iran, in all likelihood, currently possesses chemical and biological weapons, the U.S. government is poised to react to their implementation, rather than respond to their continued production.

Iran's long-range missile program remains very contentious, but it is probably a strategy that the government will continue to expand and build upon. The Iranian government views the investments made in this program as a more rapid and cost effective method of modernizing its national defense. The ability to launch long-range missiles also keeps Iran's regional neighbors in check who also have similar missile systems, especially Iraq, Israel and Saudi Arabia. However, Iran's missile system is under extremely close scrutiny from the U.S. government, who views it as the primary means that Iran can attack, not only U.S. targets, but also currently threaten U.S. military muster sites and the capitals of some its regional allies. Iran's missile program, while being the foundation of a strategy of deterrence, is the primary focus, along with Iran's nuclear weapons program, of the U.S. intelligence community. The U.S. government has made it clear that it views Iran's missiles with a very critical eye and will not hesitate to retaliate on a massive scale if they are used.

The Iranian government's involvement with state-supported terrorism is its most problematic public relations issue. From high-publicity assassinations of members of the Shah's family in Europe to overt support of known terrorist organizations, such as Hezbollah and HAMAS, the current Iranian government is attempting to shrug off its reputation as a terrorist supporting state while, at the same time, attempting to portray itself as a victim of domestic terrorism at the hands of the MEK and the KDPI.

The duality of the Iranian government is very apparent concerning terrorism. President Khatami has publicly renounced terrorism. The U.S. State Department has published data that contends that Iranian sponsored terrorism is on the decline. However, President Khatami does not control the relevant levers of power within the Iranian government. Hardliners within the government remain committed to funding and training terrorist organizations. These actions, in their opinion, demonstrate Iran's ability to project influence outside of Iran's borders, as well as intimidate the U.S., Israel and Iranian expatriates that oppose the Islamic government.

The Clinton Administration is aware of the Iranian operatives that actively observe U.S. military and diplomatic missions in Europe and the Middle East. It is also concerned with President Khatami's practice of remaining neutral toward the Israeli-Palestinian Peace Process while at the same time meeting with high-ranking members of Hezbollah. The U.S. government acknowledges that the Iranian government is currently a target of at least two terrorist organizations and has limited its reprisal attacks and assassinations to central and northern Iraq, instead of Europe. Given Iran's history of terrorism, the U.S. government will always view Iran as a prime suspect in any regional terrorist attacks, and if those suspicions prove to be correct, will respond in a swift, appropriate manner.

While the Iranian government will continue to grapple with issues of terrorism, it is largely thought that this is one of the three Clinton Administration

issues that has the potential to see some positive change. Iran, in its pursuit of increased and improved international relations, will most likely seek to improve its image and seek to reduce its involvement with terrorism. Economic ties and diplomatic relations may drive Iran out of the business of any type of support to terrorist organizations such as Hezbollah and HAMAS. A continued unified international effort that punishes Iran, especially in economic terms, for its terrorist actions will assist in motivating those in the Iranian government that call for terrorists acts to rethink their strategy and strengthen the resolve of those that oppose terrorism.

Directly related to Iran's involvement with terrorism is its opposition to the Peace Process between the Palestinian National Authority and the Israeli government. At times seeming to appear more Palestinian on this issue than the Palestinians themselves, Iran, in the past has provided intelligence personnel who took part in attacks against Israeli targets. Iran has also supplied economic and military support to organizations that have used terrorism to demonstrate their opposition to the process. Opposition to the Palestinian-Israeli Peace Process has given ideological legitimacy to Iran's clerical leadership.

However, President Khatami has stated that Iran will no longer block the Peace Process, insisting that it will accept any deal that the Palestinians are able to make with the Israeli government. This is in Iran's best interest due to the amount of political effort and will that the U.S. government has put into the Peace

Process. The U.S. views these negotiations as an integral part of its foreign policy and a critical national interest. Any nation, especially one that has such a tumultuous history with the U.S. as Iran does, that crosses sabers with the U.S. government over this sensitive issue, will find itself looking down the barrel of the U.S.' continued arsenal of sanctions, boycotts and other methods of punishments. While not a direct threat to the U.S., the U.S. government views opposition to such a vital foreign policy strategy as having regional and global stability implications and will counter any efforts that seek to prevent an agreement.

Whether Iran's hard-line clerical leadership, who view opposition to the Palestinian-Israeli Peace Process as much a fight involving the sanctity of Islam as it does a fight for the Palestinian people, will reduce their efforts and support for armed opposition groups remains to be seen. Certainly, the average Iranian is fundamentally concerned with the Palestinian's cause, but he has his own domestic challenges, such as Iran's economy to focus on as well. This lack of popular support for continued funding to the various Palestinian interests groups may prove useful to President Khatami should he attempt to wrangle more power from the hardliners in the Iranian government.

Finally, Iran's conventional arms are in dire need of modernization. Because of this, the Iranian military is little more than a nuisance to the U.S. The Iranian government cannot defend its oil facilities, military bases or other

strategic targets against U.S. cruise missile and stealth aircraft attacks. Its naval and missile forces would survive no longer than a few days in the face of a full U.S. military endeavor.¹⁰⁴ Iran has the capability to place mines within the Persian Gulf, the Straits of Hormuz and the Arabian Sea, but these are viewed as merely harassment attempts, as they lack the ability to completely block access to the Persian Gulf. Iran also lacks any modern airborne sensors and command and control capabilities, placing its small, modern air force fighting blindly against larger, more technically advanced forces.

Iran also lacks a sufficient modern armor force capable of sustained offensive operations. Iran, geographically, lacks a land bridge to attack any other Gulf nation other than Iraq. Striking through Iraq and Kuwait to attack Saudi Arabia, for instance, would stretch its logistical capabilities to near suicidal lengths. Furthermore, it lacks the sea and air cargo assets needed to transport its land forces across the Persian Gulf.

Lastly, Iran's procurement endeavors have landed it in the pickle of having to maintain weapons systems from the West, supplied during the Shah's reign as well as its meager modern weapons, largely of Russian and Chinese design. This not only reduces the effectiveness of the Iranian military's logistical system, but also significantly strains the military budget.

¹⁰⁴ Cordesman. "Iran in Transition: Uncertain Hostility, Uncertain Threat." Page 26.

The threat from Iran's conventional military has been largely exaggerated by media sources and organizations opposed to Iran's Islamic government. Iran lacks the modern weapons required to seriously confront the U.S. or a coalition of its regional allies. It also lacks dependable sources for technical training and spare parts, which undoubtedly, causes daily concerns for Iran's military planners.

The Iranian military is in the middle of a rebuilding effort, one that it has required for national defense since the end of the Iran-Iraq War. This expensive strategy is at the whim of the price of oil on the international oil market and U.S. pressure on other nations not to supply Iran with conventional arms. Its lack of an effective means to engage in a long-term conflict matched with the U.S.' concrete resolve to maintain security and stability within the Persian Gulf region will likely deter the Iranian government from risking a confrontation.

Iran's ability to threaten the U.S. is real, but not as luminous as it has been made to appear by the Clinton Administration and the media. Certainly Iran's pursuit of a nuclear weapons program is cause for anxiety on the part of the U.S. government and must be blocked at every turn. The same is true for Iran's long-range missile capability. This type of WMD may serve to escalate regional tensions, rather than reduce them by means of deterrence. The U.S.' guard against chemical and biological attacks is also warranted due to Iran's arsenal of both weapons, which could pose a threat to U.S. allies in the region.

However, Iran's use of terrorism is on a downward trend due to the direct diplomatic and economic cost associated with conducting these operations within Europe. The U.S. should continue to monitor support given to organizations that oppose the Israeli-Palestinian Peace Process, both from sources within Iran and throughout the Middle East.

Lastly, Iran's conventional military poses little threat to the U.S. or its regional allies. It is actively engaged in a modernization program, partly in response to the regional arms race started after the Gulf War, but largely because of the massive damage that its armed forces suffered during the Iran-Iraq War.

The current threat from Iran lies in its potential to project a threat in the future. Currently, Iran has no nuclear weapons, it can't place a chemical or biological warhead on a long-range missile, nor can it successfully launch a conventional military strike against any of its neighbors. However, the fact that Iran is seeking these capabilities is a potential threat to U.S. interest in the region. The U.S. government's efforts to block these attempts will likely continue. However, on a parallel track, the U.S. government may consider proposals, such as a regional arms control conference, that would seek to defuse the tensions that cause Iran and other nations to seek and possess these military capabilities.

Chapter Three

An Analysis of the U.S. Economic Sanctions Against Iran.

Section One: Introduction.

One way that the U.S. government tries to influence the activities of governments, businesses or citizens of other nations is by imposing (or threatening to impose) sanctions on foreign commerce. Broadly, the term “sanctions” refers to a collection of actions that the government can take, including legislative and executive measures, to restrict the flow of goods, services or capital between the U.S. and another country in order to promote foreign policies or enhance national security. This definition also generally includes diplomatic actions that place restrictions on commercial trade, limits financing activities, and restricts foreign aid and trade assistance programs. The immediate aim of sanctions is to deter a government’s actions that threaten the security or economic well being of the U.S. (and consequently, encourage unobjectionable actions) by making these actions more costly.¹⁰⁵

The U.S. government, in particular, the Clinton Administration, has seen economic sanctions as a convenient and politically popular method of attempting to induce changes in Iran’s foreign policy. President Clinton, speaking in 1995 stated “I am convinced that instituting a trade embargo is the most effective way

¹⁰⁵ Congressional Budget Office Report: Domestic Costs of Sanctions on Foreign Commerce. Washington D.C.: Congressional Information Service, Inc., 1999. Page 2.

our nation can help curb Iran's drive to acquire devastating weapons and support terrorist activities.”¹⁰⁶ From banning U.S. imports and exports to Iran to threatening to place further sanctions on international companies that invest in Iran's oil and gas industries, the Clinton Administration has not only continued a long history of U.S. sanctions but strengthened them resulting in one of the most complete, economic barriers ever erected around a single nation.

However, the Iranian government is no stranger to the effects of foreign economic blockades. From the earliest days of Russian influence in Iran's northern provinces and the blatant acts of the British government during Prime Minister Mossadeq's quest for nationalization of Iran's oil industry to the various sanctions emplaced by every U.S. President since 1980, Iran has lived under the shadow of nations willing to place an economic cordon around it. This history of being held economically hostage has led to a general shrugging-off of U.S. sanctions, the quest for greater Iranian self-sufficiency, and the search for other sources of commerce. Then Deputy Minister of Oil, Ahmad Rahgozar, stated in 1995 that

“...these new policies will not do much. They don't have practical applications, because during the past 17 years after the Islamic revolution we have learned how to live with this American problem. There are many other technical and science centers in the world, especially petrochemicals. Among the seven major industrialized countries, we have problems with only one.”¹⁰⁷

¹⁰⁶ *International Trade Reporter*. “U.S. To Ban Trade, Investment With Iran, President Clinton Says.” 3 May 1995, Page 781.

¹⁰⁷ *The Financial Times*. “Iran Shrugs Off Boycott Threat.” 6 December 1995, Page 7.

The U.S. economic sanctions have sought primarily to isolate Iran's oil industry by preventing investments being made to maintain and enlarge its infrastructure and find new deposits of oil and gas. This goal, in spite of the U.S. sanctions and the threat of further sanctions on international companies, has not been achieved. Iran is able to export and sell its oil on the open, global market as well as attract large investments from companies around the world.

This is not to say that Iran's economy is not without its share of problems. From high inflation rates to high unemployment figures, certain aspects of Iran's economy are worse off now than during the Shah's reign. The Iranian government has done a considerable amount of this damage by shooting itself economically in the foot. The Iranian economy has suffered more as a result of the combination of bad domestic policies and price slumps on the world oil market rather than any U.S. foreign policy decision.

The goal of this chapter is to determine how successful the U.S. sanctions against Iran have been. A brief evaluation of the historical effectiveness of economic sanctions will verify if the U.S. government's method of convincing Iran to change its foreign policy has any historical precedence of succeeding. Then, by analyzing the U.S. government's twenty-year history of applying sanctions against Iran and the Iranian government's reaction to them, an

assessment will be made as to whether the sanctions have had their desired effect or if they have failed. Additionally, the effects of the sanctions will be considered in relation to the positive and negative effects on the economies of both Iran and the U.S.

Section Two: The Effectiveness of Economic Sanctions and their Application to Iran.

By implementing a strategy of economic sanctions against Iran, the U.S. government selected a strategy that has proven to have a less than effective historical performance. In a comprehensive study of all economic sanctions imposed worldwide between 1914 and 1990, researchers found that economic sanctions failed to achieve their stated objectives in 66 percent of the 116 cases studied.¹⁰⁸ Since 1973, the success rate for economic sanctions has fallen sharply to 24 percent for the studied cases.¹⁰⁹

The cases where economic sanctions proved effective had four common traits:

1. The sender country was seeking a minor policy change in the target country, such as the release of a political prisoner, rather than a major policy reversal such as a military withdrawal, a change in head of government or democratization.
2. The sender country had a historic relationship with the target country, such as mother country to colony.

¹⁰⁸ Hufbauer, Gary Clyde, Jeffrey J. Schott and Kimberly Ann Elliot. *Economic Sanctions Reconsidered: History and Current Policy*. Washington D.C.: Institute for International Economics, 1990. Pages 92-93. <http://www.heritage.org/library/categories/trade/bg1126.html>
Accessed on 5 October 2000.

¹⁰⁹ Ibid., Pages 105-107.

3. The sender country's economy was strong and did not depend on trade and investment with the target country. In contrast, the target country's economy was very weak and depended heavily on trade and investment with the sender country.

4. The sender country could isolate the target country internationally without much cooperation from other countries.¹¹⁰

Based on these characteristics of successful economic sanction regimes, the U.S. government's efforts face an uphill battle. First, the U.S. is seeking a major policy reversal in Iran. The U.S. seeks to persuade the Iranian government not to modernize its conventional military despite a regional arms race, and not to build WMDs, which Iran views as a national interest. These are not minor policy changes. These challenges are large, fundamental differences that define part of the large gulf between the U.S. and Iran.

Second, the U.S. and Iranian governments, though strong allies in the fight against communism, never shared a relationship that could be characterized as "mother country to colony." Throughout the Shah's reign, the U.S. government wielded a large amount of influence but never to the extent that Iran gave up its sovereignty. This is further evidenced by the fact that while enjoying the benefits of being major trading partners, the U.S. never signed any formal security arrangements with Iran. The U.S. and Iran were allies, and the U.S preferred to keep Iran, and particularly the Shah, close, but not too close.

¹¹⁰ O'Quinn, Robert P. "A User's Guide to Economic Sanctions." *The Backgrounder*. The Heritage Foundation, 25 June 1997. Page 8. <http://www.heritage.org/library/categories/trade/bg1126.html> Accessed on 5 October 2000.

Third, the U.S. government, since ending its first embargo as a condition of the hostage's release in 1981, has been unable to garner wide international support for further economic sanctions against Iran. As seen by Table 13, the Iranian government has been successful in finding diverse sources and countries willing to conduct international commerce and has enlarged these resources as the U.S. has sought, through economic sanctions, to restrict Iran's economic potential.

Table 13: Share of Iranian Imports by Traditional Source Suppliers.

Time Period	United States	Western Europe	Japan	Other Nations
Pre-Revolution (1975-1978)	18.5%	48.7%	15.8%	17.0%
Revolution and Iraq War (1979-1988)	1.8%	47.8%	13.0%	37.4%
Postwar Reconstruction (1989-1992)	2.1%	52.1%	11.4%	34.4%
Dual Containment (1993-1996)	3.3%	45.8%	8.3%	42.6%
Iran-Libya Sanctions Act (1996-present)	0.0%	44.9%	6.4%	48.6%

SOURCE: Estelami, Hooman. "A Study of Iran's Responses to U.S. Economic Sanctions".

Journal. Middle East Review of International Affairs, September 1999. Page 2.

Since 1979, the Iranian government has cultivated new sources of commerce, especially in Eastern Europe, Russia, China and North Korea. This has left Iran with the ability to lessen its dependency on former long-established sources of trade, such as the U.S., Western European nations and Japan. Iran, has not been economically isolated – a distinguishing attribute of an unsuccessful system of economic sanctions.

Since 1990, the U.S. government has been far more willing to implement unilateral economic sanctions than in the past. During President Clinton's first term, his administration imposed new unilateral economic sanctions 61 times on a total of 35 nations.¹¹¹ These countries are home to 2.3 billion people or 42 percent of the world's population. Third-party nations have undermined many of these unilateral sanctions, viewing them as commercial opportunities to grab foreign markets from U.S. companies. Additionally, there are few industries in the U.S. that dominate the global market and are unchallenged by foreign rivals.¹¹² The U.S. is no longer the sole-source of sophisticated products such as commercial satellites and super computers. Other nations have mastered these manufacturing and production technologies and have used them effectively to chip away at the U.S.' unilateral efforts. Certainly in the case of Iran's oil industry and defense requirements, foreign businesses have been able to replace U.S. companies with a minimal amount of damage done to Iran's economy.

Section Three: The History of U.S. Economic Sanctions and the Iranian Responses.

Prior to the 1979 Islamic revolution, trade between the U.S. and Iran flourished. In 1978, U.S. manufactured goods accounted for \$4 billion (or 21%)

¹¹¹ Ibid, Page 6.

¹¹² Ibid, Page 10.

of all Iranian imports, making the U.S. Iran's number-one trading partner.¹¹³ However, the hostage crisis in November 1979 changed all of that. President Carter banned all U.S. exports to Iran and broke off diplomatic relations between the two nations. These sanctions were lifted as a part of the 1981 Algiers Accord, which secured the release of the U.S. hostages in Tehran. By 1984, however, at the beginning of the U.S.' involvement in the Iran-Iraq War, President Reagan renewed sanctions against Iran with the implementation of the Arms Export Control Act and the Export Administration Act. These policies restricted the products that U.S. companies could sell to Iran. Aircraft, vehicles and technologies with military applications were banned from export to Iran. U.S. oil companies, on the other hand, were excluded from this and continued to import Iranian crude oil to the U.S.

Following the U.S. government's commitment to re-flag and escort Kuwaiti oil tankers in the Persian Gulf, economic relations between the U.S. and Iran continued to deteriorate. In October 1987, President Reagan, by executive order, banned the import of all Iranian products and services. U.S. oil companies were also prohibited from importing Iranian oil into the U.S. for local consumption. These companies did, however, continue extracting Iranian oil and selling it to their non-U.S. markets.

¹¹³ Estelami, Hooman. "A Study of Iran's Responses to U.S. Economic Sanctions". *Journal. Middle East Review of International Affairs*, September 1999. Page 2.
<http://www.biu.ac.il/Besa/meria/journal/1999/issue3/jv3n3a5.html> Accessed on 12 September 2000.

Iran's response to the considerably diminished economic ties with the U.S. during this time was to begin to seek out new economic partners. With the traditional pre-revolution suppliers in Western Europe (Germany, Britain and France) and Japan all succumbing to U.S. pressure to reduce their involvement in Iran, the Iranian government began to look elsewhere. Smaller European countries, Eastern European, Islamic and non-aligned nations became a quick substitute. Australia and New Zealand took over the U.S.' role of supplying wheat to Iran, and Sweden, Denmark and Italy played a large role in supplying such critical commodities as meat, sugar and iron.¹¹⁴ Economic ties were also forged with the Soviet Union, Yugoslavia, Poland and Romania. The Iranian government's desire to reduce its dependency on its traditional trading partners led to a greater diversity of commerce sources.

The end of the Iran-Iraq War in 1988 saw the Iranian government focus on rebuilding its damaged industrial sectors and infrastructure. Iran also began to shift some emphasis away from its oil industry, which was badly damaged during the war, and spotlight non-oil industries that could bring additional revenue into the country. Thus, the Iranian government began promoting non-oil industries with a high export demand, such as handmade carpets and dried fruits, to supplement the proceeds from rebuilding the oil industry. Since the end of the Iran-Iraq War, Iran's non-oil exports, especially the carpet industry, which had

¹¹⁴ Estelami, Page 3.

grown from a \$345 million per year export commodity in 1989 to a \$1.2 billion per year industry in 1992, while still a small portion of Iran's exports, have been on the rise as evidenced by Table 14.

Table 14: Iran's Export Product Array.

	1979-1988	1989-1992	1993-1994
Oil and Gas	94.9%	89.2%	82.3%
Carpets	1.8%	3.9%	6.6%
Fresh and Dry Fruits	1.0%	2.3%	3.3%
Leather	0.4%	0.4%	0.5%
Copper and Metals	0.2%	0.3%	0.7%
Caviar	0.2%	0.2%	0.2%
Textiles	0.1%	0.1%	0.2%
Chemicals	0.1%	0.2%	0.1%

Source: Estelami, Hooman. "A Study of Iran's Responses to U.S. Economic Sanctions". *Journal. Middle East Review of International Affairs*, September 1999. Page 5.

Recognizing these facts and Iran's neutral posture during the Gulf War, President Bush relaxed some of the U.S. trade restrictions and by 1991, allowed limited amounts of Iranian oil into the U.S. Exports from the U.S. began to find their way onto the shelves of Iranian markets, and Iran continued to supply U.S. oil companies with oil destined for non-U.S. markets.

This trend of warming economic ties between Iran and the U.S. came to a close with the election of President Clinton and the implementation of the 1993 policy of Dual Containment. This strategy, aimed at weakening both Iran and Iraq, would eventually usher in a new wave of economic sanctions and attempts to limit European and Japanese investments in Iran. In an attempt to slow the

momentum behind the Dual Containment policy, Iran attempted to offer profitable contracts to U.S. companies. As a result, by 1994 the U.S. had become Iran's fifth-largest supplier of imports and U.S. oil companies were Iran's largest customers.

Nonetheless, Iran continued to cultivate its new economic ties with countries such as Russia, whom it contracted both to supply combat aircraft and submarines, and to begin construction of a nuclear reactor project. Iran also cemented relations with Turkey and Turkmenistan, agreeing on a deal to invest in a 900-mile pipeline from Iran through Turkey to Turkmenistan in order to export Turkmen natural gas. Kazakhstan and Iran agreed to implement an oil swap deal whereby Iranian refineries in the north are supplied with Kazakh oil, in return for shipments of crude oil in the Persian Gulf to Kazakh customers, thus facilitating Kazakh oil exports through Iranian territory.

Iran has also sought out joint ventures with India and Pakistan and has increased its import of goods from the United Arab Emirates five-fold between 1978 and 1996.¹¹⁵ These relations and those with China, who has supplied not only military hardware, but also has invested in Tehran's subway system, as well as the Iranian government's improved economic ties with Malaysia and South Africa have proven an effective way to offset the U.S. sanctions.

¹¹⁵ Ibid., Page 6.

Eyeing Iran's ability to circumvent its foreign policy, the U.S. government sought to accelerate the implementation of trade and economic sanctions. In 1995, by executive order, President Clinton prohibited all U.S. companies from any involvement with Iran's oil industry and banned any type of trade involving oil or non-oil related Iranian products. Furthermore, the export of all U.S. goods and services, to include brokering and financing, were disallowed. This strategy was further reinforced by the 1996 Iran-Libya Sanctions Act (ILSA), which subjected foreign companies to U.S. sanctions if they invested more than \$40 million during any one-year period in Iran's oil and gas industry. The ILSA enabled the U.S. President to sanction foreign firms in the following methods:

1. Ineligibility to bid on U.S. government contracts.
2. Banned from importing goods into the U.S.
3. Denial of U.S. export licenses.
4. Refusal of U.S. Export-Import Bank assistance.
5. Refusal of loans over \$10 million in any one-year period from U.S. lending institutions.
6. Banned from dealing in U.S. government bonds.

The President, if it was in the nation's interest and would prevent retaliation, could grant waivers to foreign companies and thus refuse to implement any of these sanctions. The ILSA was further strengthened in 1997 when the trigger to activate these sanctions was dropped to \$20 million and the prohibition of

virtually all trade and investment activities by U.S. citizens and companies was reaffirmed.¹¹⁶

The U.S. measures were designed to achieve two complementary objectives: to impair the military potential of Iran, particularly regarding the development of chemical, biological and nuclear weapons, and to reduce resources available to the Iranian government to fund terrorist activities.¹¹⁷ The ILSA sought to strike at the heart of the Iranian oil industry – the investments needed to maintain its existing oil and gas fields, exploration and development of new fields and the construction of pipeline networks. The U.S. government, because of the dependence of the Iranian economy and the government's budget upon oil revenue, fashioned this policy in order to force Iran to shape its foreign policy to a position more agreeable to the U.S.

Iran, weighing its options on how to react to the ILSA, selected to confront the U.S. head-on. It sought to capitalize on the international reaction to the extraterritorial nature of the ILSA and hoped to persuade non-U.S. firms to violate the conditions of the sanctions.

The feedback from the U.S. government's announcement of the ILSA was thunderous. Japan, Canada, Australia, China and the members of the European

¹¹⁶ U.S. Department of Energy. "Country Analysis Brief: Iran." September 2000. <http://www.eia.doe.gov/emeu/cabs/iran.html> Accessed on 11 December 2000.

¹¹⁷ Schott, Jeffrey J. "The Iran and Libya Sanctions Act of 1996: Results to Date." Testimony to the U.S. House Committee on International Relations, 23 July 1997. Page 2. <http://www.iie.com/TESTIMONY/ircm.htm> Accessed on 5 October 2000.

Union (EU) expressed concerns about the sanctions related to the ILSA. The EU drafted retaliatory legislation should ILSA sanctions be exercised on any EU-based companies. The French government went further, threatening to fine companies that did not trade with Iran because of the threat of U.S. sanctions.

The Iranian government, in a further effort to flaunt its opposition to the ILSA, offered very lucrative contracts to non-U.S. companies to invest in its oil industry. The terms of these contracts made it hard for companies to refuse and soon European, Russian and Far Eastern firms were engaged in contracts involving sums over the \$20 million trigger. Under pressure from France, Russia and Malaysia, the U.S. government issued a waiver against punitive sanctions on 18 May 1998 to Total, Gazprom and Petronas for their investments in Iran's oil industry. This refusal to enforce the conditions of the ILSA opened Iran to more international investments. Negotiations and contracts involving financing from France's Elf-Aquitaine and Gas de France, Britain-based BP-Amoco, Arco and British Gas, Italy's ENI, Australia's BHP, Norway's Norsk Hydro yrdHydrdfrom, the Chinese National Oil Company, Turkey's state owned energy company Botas, Canada's Bow Valley Energy and Germany's Westdeutsche Landesbank have taken place to support the maintenance, development and expansion of Iran's oil

and gas industry.¹¹⁸ These investments have ranged from \$180 million to \$850 million and were implemented after the signing of the ILSA.¹¹⁹

Iran has also invested heavily in its own domestic manufacturing sector, which is now capable of producing a wide range of oil-industry related parts such as pipes, valves and gaskets. Parts that it cannot manufacture locally are obtained through foreign companies or through the Chinese government, who holds the manufacturing license to many western technologies and has provided much of the sophisticated equipment required to maintain and expand Iran's oil industry.

The U.S. government has kept the ILSA in effect but has not, to date, sanctioned any foreign companies from investing in Iran's oil industry. The Clinton Administration in 1998, recognizing the potential of the election of Iran's new President, slightly loosened the economic embargo, allowing Iran to import U.S. food, medicines, medical equipment and limited spare parts for commercial passenger aircraft sold to Iran before the Islamic Revolution. Following this, in March 2000 the U.S. government relaxed its import restrictions on Iranian carpets and some food products such as dried fruits, pistachios and caviar, in an effort to distinguish its sanctions against the Iranian government's actions and the livelihoods of the Iranian citizens.

¹¹⁸ Mann, Hillary. "Iran Sanctions Violations – The Challenge for Washington". *Policy Watch*. The Washington Institute for Near East Policy, 5 May 1997. Pages 3-5.
<http://www.washingtoninstitute.org/watch/Policywatch/policywatch1997/245.htm> Accessed on 12 September 2000.

The U.S. decision to isolate the Iranian oil industry as well as emplace a large trade barricade around Iran has not garnered any international support. Most industrialized nations, in recognizing Iran's history of aggressive acts have implemented more narrowly targeted sanctions designed to limit Iran's access to products and technologies that could support the production and delivery of nuclear, chemical and biological weapons but have maintained extensive diplomatic and trade relations.¹²⁰ These countries are not as willing as the U.S. to punish Iran for its conflicts with the U.S. and its allies, nor are they willing to sacrifice commercial profits to show their indignation. Most of these nations also concur with the ideas of Germany's former Foreign Minister, Klaus Klinkel when he stated in 1996, "...it is in our view better to continue the dialogue with Iran rather than break off all contacts, introduce sanctions and further radicalize Iran by isolating the country."¹²¹ They also believe that the trade-related sanctions regime imposed unilaterally by the U.S. government violates the principles of free trade that the U.S. has worked hard to develop internationally.¹²²

The Iranian government is also aided by its group of "Black Knights" (Russia, China and North Korea) who are more driven by the profit-motives than the industrial nations of Western Europe and Japan and have supplied Iran with

¹²⁰ Schott, Page 2.

¹²¹ Reuters, 9 May 1996. <http://www.iie.com/FOCUS/SANCTION/iran2.htm> Accessed on 19 September 2000.

¹²² Welch, C. David. "Striking a Balance: Maximum Pressure on Iran and Libya, Minimum Cost to American Interest." Testimony to the U.S. House Ways and Means Committee. 22 May 1996. Page 2. <http://www.state.gov/www/regions/nea/960522.html> Accessed on 19 September 2000.

sanctioned arms and WMD technologies. However, both groups of nations have either invested directly or allowed companies based within their borders to invest heavily in Iran's oil and gas industry. These international efforts have assisted in negating the effects of the U.S. sanctions, which target the Iranian oil-industry. Hence the Iranian oil industry has maintained an acceptable level of production and has continued to fund the operations of the Iranian government.

Section Four: A Comparison of the Effects of the U.S. Sanctions and Iran's Domestic Policies upon the Iranian Economy.

There is no doubt that the Iranian economy would be in better shape had the U.S. not resolved to implement its regime of economic sanctions. The sanctions have caused Iranian officials to admit that there have been "difficulties."¹²³ Problems finding replacement parts for its Western constructed oil and gas industry infrastructure, rescheduling short-term debt, cancellations of normal credits from international finance organizations and an overall leanness on the part of some international companies to invest in Iran, have contributed to Iran's economic woes, but so has the Iranian government. Failed efforts to reform its domestic economy combined with an over-dependence on oil revenues, have also contributed to Iran's overall economic "difficulties." However, the Iranian oil industry, which is the target of the U.S.' most recent sanctions, is suffering

¹²³ Amuzegar, Jahangir. "Adjusting to Sanctions". *Foreign Affairs*. May/June 1997. Page 31.

little. Exports and subsequent revenues remain steady and provide adequate funding for the Iranian government. The sanctions, while making a statement to the Iranian government, have yet to achieve their stated objective.

Iran is OPEC's second-largest oil producer, with an average 1999 crude oil production of 3.6 million barrels per day (bbl/d). Table 15 demonstrates Iran's oil production capabilities over the past decade and shows that the U.S. sanctions have had a limited effect in preventing Iran from expanding its production capability, as demonstrated by the constant 3.6 million bbl/d output from 1993-1999.

Table 15: Iranian Oil Production Rates.

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Oil Production (in Millions of bbl/d)	2.9	3.3	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.7

SOURCE: Clawson, Patrick and Michael Eisenstadt, Eliyahu Kanovsky, David Menashri. *Iran Under Khatami: A Political, Economic and Military Assessment*. Washington D.C.: Washington Institute for Near East Policy, 1998. Page 66. U.S. Department of Energy. "Country Analysis Brief: Iran." September 2000. Page 1.

However, Iran's OPEC production quota is 3.84 million bbl/d, and Iran has been a staunch and vocal supporter of OPEC members producing at or beneath the production quotas in order to gain the maximum price per barrel.¹²⁴ Table 15 also demonstrates that for the year 2000, Iran's production output increased, which

¹²⁴ U.S. Department of Energy, Page 1.

indicates that Iran is achieving some expansion capability from the influx of foreign investments.

The Iranian economy continues to grow at a steady rate. Table 16 depicts Iran's Gross Domestic Product (GDP) annual growth rate during the past 20 years and its forecasted growth rate.

Table 16: Iran's GDP Annual Growth Rate.

	1979-1989	1989-1999	1998	1999	1999-2003
GDP Growth Rate	1.1%	4.2%	2.2%	2.5%	3.6%

SOURCE: Clawson, Patrick and Michael Eisenstadt, Eliyahu Kanovsky, David Menashri. *Iran Under Khatami: A Political, Economic and Military Assessment*. Washington D.C.: Washington Institute for Near East Policy, 1998. Page 66. The World Bank. "Islamic Republic of Iran at a Glance." 30 August 2000. http://www.worldbank.org/data/countrydata/aag/irn_aag.pdf Accessed on 5 November 2000.

It also demonstrates the effect that low oil prices had in 1998 and the rebound that they made in late 1999. The World Bank predicts that Iran's economy will continue at a steady growth rate into the future. The past and forecasted economic growth rates indicate that Iran's economy is expanding despite the attempts by the U.S. government to retard it.

Iran's high inflation rates and amounts of foreign debt have had more influence on Iran's economy than the U.S. sanctions have. From 1990-1997 Iran sustained an average annual inflation rate of 24.3 percent, the highest rate of all the nations that border the Persian Gulf.¹²⁵ Iran's inflationary woes require the

¹²⁵ *World In Figures*. Pages 34 and 146.

government to take an ever-increasing amount of oil industry created revenues to fund its operations at the same level. This leaves, annually, a smaller reserve of funds to expand the government's ability to finance new infrastructure projects or programs.

Iran owes foreign banks, governments and aid institutions a total of \$21 billion, which is also the largest amount of debt of any nation in the Persian Gulf region.¹²⁶ The Iranian government's repayment of its debts, one-third of which are short-term, high-interest loans, consumes as much as 25 percent of its annual oil and gas export proceeds. However, Iran, having experienced difficulties gaining any additional international loans or debt relief has been attempting to pay its foreign debts off at a quicker rate. Overall, Iran has changed from being a net borrower to a net repayer, cutting imports and devoting \$3-4 billion annually on repayment of loan principals.¹²⁷

Debt repayment has been a key concern of the largely western European nations who have loaned Iran these funds. Keeping Iran's oil industry healthy is their guarantee that Iran will repay its debts. These nations view the U.S. sanctions, especially the ILSA which specifically targets the oil industry, as a means of ensuring that Iran will not repay its debts, an event that would have an

¹²⁶ *World In Figures*. Pages 36 and 146.

¹²⁷ Clawson, Patrick. "U.S. Sanctions on Iran: What Has Been Achieved and at What Cost?" Testimony to the U.S. House of Representatives International Relations Committee. 3 June 1998. <http://www.washingtoninstitute.org/media/clawson.htm> Accessed on 20 June 2000.

impact on the international financial institutions and governments who have allowed the Iranian government to borrow these funds.

The real blame for Iran's economic "difficulties" lies with the Iranian government's domestic policies and failed attempts to reform its traditional economic strategies. Under Iran's constitution, the Supreme Leader controls all of the judiciary and security organizations as well as the television and radio networks. The elected president is the second highest-ranking official in Iran and is responsible for the government bureaucracy and overseeing the economy. However, the Supreme Leader, through blocking or weakening reform oriented legislation, has interfered with and thwarted the president's attempts to reform key portions of the Iranian economy such as currency exchange rates, the tax system and privatization efforts. This happened often during President Rafsanjani's two terms in office as well as during President Khatami's term. These interventions are done on behalf of well-connected members of the religious or secular elite who thrive on kickbacks, pay offs and other forms of corruptive "easy money." The end result is that meaningful economic reforms have rarely occurred.¹²⁸

Iran's system of government subsidies is also a challenge to its economy. Subsidies on energy – oil products, gasoline and electricity – cost the Iranian

¹²⁸ Clawson et al. Page 54.

economy \$11 billion every year.¹²⁹ Added to this is the annual \$2 billion that the government spends to subsidize basic food items. These subsidies, besides consuming a large percentage of the annual proceeds from Iran's oil production, encourage waste and corruption.

Because the government invests so much money into the oil and gas industry, critical domestic projects are often neglected. This is especially true in the area of agriculture. Iran's agricultural production rate grew by only 1.8 percent annually between 1977 and 1989. This growth rate was only about half the rate of the population growth. Into the 1990s Iran's agriculture production has further slipped, so that it now stands 20 percent lower than what it was in 1977.¹³⁰ The result of this neglect has been to increase the amount of food that Iran imports, a remarkable fact given its large amounts of arable land.

Corruption, neglected domestic initiatives and an unwillingness to change have proven to be the shackles that have limited Iran's economic potential. The effects of the U.S. sanctions on Iran's economy have been amplified by Iran's own policy blunders, but overall, have been largely negated by foreign companies and nations who are lining up to invest in Iran's oil and gas industry. Iran's oil industry still produces revenues for the government and though stunted in its expansion, its capability to export oil has not been affected by the ILSA or any other U.S. sanctions. Iran is still able to trade with other nations around the

¹²⁹ Ibid., Page 59.

¹³⁰ Cordesman and Hashim, Page 37.

world, having established commercial contracts with governments and companies from non-traditional sources such as Russia, China, India, Indonesia and Brazil. The Iranian government continues to enjoy good business relations with its suppliers in most of the European nations and Japan. Iran's economy is expanding and predicted to continue to do so into 2003. However, until Iran finds ways to implement domestic political and economic reforms, its economy will continue to struggle.

Section Five: The Impact of U.S. Sanctions Against Iran upon the U.S.

The U.S. economic sanctions that have targeted Iran's oil industry have left small marks on the U.S. economy but larger scars on its foreign policy and credibility. Banning commerce between U.S. companies and Iran has presented some challenges to U.S. firms to find other customers or supply sources but no problems so staggering that the U.S. fiscal situation has been noticeably effected.

The two industries that have suffered the most from the U.S. embargoes have been oil and oil related equipment businesses and grain exporters. Prior to the Clinton Administration's 1993 policy of Dual Containment and the ban on U.S. companies from importing Iranian oil, U.S. oil companies extracted significant amounts of Iranian oil. Daily imports from Iran reached U.S. companies such as Exxon (imported 200,000-3000,000 bbl/d), Coastal (130,000 bbl/d), Mobil (40,000-50,000 bbl/d) and Caltex (60,000 bbl/d). Prior to the 1993 ban, U.S. companies accounted for approximately 25 percent of Iran's total oil

exports.¹³¹ The ILSA, having narrowed the international market, caused these companies to pay a higher price per barrel from other sources. At the same time, the National Iranian Oil Company, which had routinely sold these approximately 650,000 bbl/d to U.S. companies, immediately found other buyers in Italy, Spain, South Africa, Bulgaria and Poland, with little effect on its production or storage capabilities.

All U.S. oil companies with an interest in selling Iranian oil have been impacted by the 1996 ILSA and its ban on investing in Iran's oil industry. U.S. companies have been forced to sit on the sidelines as numerous international oil firms have signed contracts with the Iranian government.

Prior to the implementation of the 1996 ILSA, U.S. oil equipment manufacturers were receiving \$200 million worth of Iranian orders annually. While not a huge amount (annual sales equated to only slightly over 3 percent of all oil equipment exports), the U.S. companies nonetheless felt the impact.¹³² These manufacturers had to either find new markets for their pumps, pipelines, gaskets and valves or slow down their production lines. Iran has been able, though at a greater expense, to import the same equipment through higher-priced third country sources, by finding other manufacturers or by fabricating their own.

¹³¹ Lippman, Thomas W. "Administration May Back Measure Barring Purchases of Iranian Oil." *The Washington Post*. 18 February 1995. Page A6.

¹³² U.S. Department of Commerce. The Bureau of Export Administration. BXA Annual Report FY 97. Page III-23. <http://www.bxa.doc.gov/> Accessed on 19 September 2000.

The 1996 ILSA also affected U.S. corn and rice exporters, who prior to its implementation were annually shipping 750,000 tons of grain to Iran. In 1993, U.S. companies exported \$60 million worth of rice to Iran, which represented over 8 percent of total U.S. rice exports that year. Again, while not large enough to significantly trouble these firms, they still felt the impact of having to find new markets.

The U.S. economic sanctions have had the largest impact on the U.S. government's relations with key European allies and Japan. Nations like Germany and France, as well as the whole European Union are incensed at the extraterritorial reach of the U.S. sanctions called for by the ILSA and the Cuba targeted Helms-Burton Act. The EU has threatened to register a complaint to the World Trade Organization if any companies within its member states are sanctioned. An indictment made to the World Trade Organization such as that would prove very embarrassing to the U.S. government, as the U.S. is a major supporter and facilitator of the international trade organization.

European nations, instead of supporting the U.S.' call for economic sanctions against Iran, have, instead, instituted their own policy of "critical dialogue." This strategy seeks to persuade Iran to act in a less aggressive manner through investments and business deals, rather than emplacing an absolute trade barricade. While supporting U.S. policies such as limiting dual-use technology as well as banning the exports of major conventional weapon systems, the Europeans

have found it more beneficial to let business relations and the threat of withdrawing their economic support to be more persuasive than offering Iran nothing at all. The European governments are troubled that the U.S. is willing to place political issues before market concerns. They are growing suspicious of the U.S. government because, from their point of view, the U.S. is becoming an unreliable and unstable trading partner due to its willingness to ban trade in order to support unpredictable political policies.

Not only are relations strained with the U.S.' European allies over Iran, but increasingly there are growing tensions between the U.S. and Gulf Cooperation Council member states. The GCC views the current state of affairs between the U.S. and Iran as a quick path to a future armed conflict, one that will have dire consequences on their fragile, oil-export driven economies. Kuwait and Saudi Arabia, two of the countries that have experienced Iranian supported terrorist activities, have reestablished diplomatic ties with Iran and have exchanged ambassadors. The government of Oman has been involved in security related discussions with Iran because of their joint responsibility for shipping through the Straits of Hormuz. Saudi Arabia and Iran are also involved in joint talks about a security accord between the two nations. Such discussions have followed high level exchange visits of the Iranian and Saudi Arabian defense ministers in 1999. The United Arab Emirates, though militarily and diplomatically at odds with Iran over the Tunbs and Abu Musa islands, retains

important economic ties with the Islamic Republic. While militarily conscious of Iran's potential military might, the member states of the GCC have found it beneficial to build relations with Iran and increase the region's stability, rather than ignore Iran.

U.S. sanctions against Iran have had little impact on the U.S. economy. Certain industries suffered initial setbacks, but new markets eventually replaced Iranian orders. However, U.S. oil companies have been frustrated by the fact that they must watch their international competitors scoop up profitable contracts involving the Iranian oil and gas industry. These U.S. companies are worried about losing their economic presence in the Persian Gulf. Hit hardest by the U.S. sanctions have been the U.S. government's relations with its European and GCC allies, and Japan. To many of these nations, leading a unilateral economic boycott against Iran, with few supporters, has shown the U.S. to be the aggressor, not the victim. While overall attempting to boost the economies of the world's nations, they view the U.S. government's sanctions regime as a deliberate act aimed at stifling Iran's economy. European and Japanese leaders, already concerned over the high price of oil, also question the U.S.' strategy of narrowing the world's oil supplies instead of enlarging them. Limiting Iranian oil production, in their view, will accomplish little but increase the amount that their industrialized economies will have to pay for fuel. These rifts between the U.S.

and its allies, while not wide enough to break any strategic alliances, are a cause for concern.

Section Six: Summary.

The people of Iran have lived under the economic sanctions of other nations long before the U.S. decided to implement its policies. Both the Russians and the British tried to break Iran's will during the 19th and 20th centuries by implementing a strategy that sought to economically barricade Iran. Historically, this has forced Iran not to rely on a sole nation for its economic dependence but, rather, to seek a strategy of diversifying its trade sources. Iran has successfully done this to escape the net of the U.S. economic sanctions. By finding new economic partners, attempting to reduce its dependence on oil export revenues, and, seeking to develop its non-oil export industries, Iran has broadened its economic opportunities.

Iran's diversification strategy is best demonstrated by the fact that in 1974, seven countries accounted for 70 percent of Iran's imports and exports. By 1994, 14 countries accounted for 70 percent of Iran's international trade and the top seven nations only accounted for 50 percent of its total imports.¹³³ The Iranian government is savvy enough and has enough practical experience to know how to best operate under the conditions set forth by another nation's economic sanctions.

¹³³ Estelami, Page 9.

In selecting a course of economic measures through which the U.S. government has sought to force Iran to change its foreign policy, it has chosen a strategy that is not likely to enjoy success. A historical analysis of all economic sanctions implemented between 1914 and 1990, demonstrated that economic sanctions failed to achieve their stated objectives 66 percent of the time. Since 1973, the success rate of economic sanctions has fallen sharply to 24 percent and since 1990, sanctions have contributed to the achievement of U.S. foreign policy goals in less than 20 percent of the cases.¹³⁴

If objectively assessed against their stated goals, most of the U.S. sanctions against Iran have not been successful. The Iranian government has a diverse source of international trading partners capable of providing manufactured goods, advanced technologies, and advanced conventional weapon systems and WMD. Iran's oil and gas industry operates on the world market unimpeded as nations line up to purchase Iranian crude oil and invest in the infrastructure of the National Iranian Oil Company.

More importantly, however, is the fact that psychological and political impact of the U.S. sanction has not produced the anticipated results or transformed the regime. Since the initiation of the ILSA, Iran has continued its pursuit of WMD and has actively tested its long-range missile systems. Iran has reduced its rhetoric about the Israeli-Palestinian Peace Process, but this appears to

¹³⁴ Schott, Page 4.

have been brought about by a deal brokered between President Khatami and Palestinian National Authority President Arafat rather than Iran's eye on the U.S. sanctions. Additionally, Iran has reduced its terrorist acts, especially those committed in Europe, bowing to the combination of diplomatic and economic pressures from its European trading partners, rather than the U.S. embargo.

The U.S. economic sanctions have succeeded in causing a policy gap between the U.S. and its European allies, the GCC nations and Japan. Embarking on a policy of "Critical Dialogue", these nations have set about on a strategy that seeks to engage Iran through commerce, hoping that their representatives from the private business sector will be as effective in influencing Iran as their diplomats are. These nations support the U.S. request to ban Iran's import of certain dual-use technologies that can benefit both civilian and military industries, but refuse to join the U.S.' call for a total cordon. The economic ties forged by Japan and the European nations, when matched with Iran's relations with its Asian partners as well as other nations throughout the world, have undercut the intended impact of the U.S.' strategy.

The economic sanctions have also left U.S. oil companies watching while their international competitors sign contracts to invest and expand Iran's oil and gas export capabilities. These U.S. companies fear for their future ability to operate profitably in the region as well as their reputations as "reliable suppliers"

in light of the fact that the U.S. government is quick to implement economic sanctions.

Unilateral economic sanctions, such as the ones that the U.S. has implemented against Iran have not produced their desired results. In today's global economy, where goods are easily substituted for those withdrawn by the U.S. from their intended market, it is easy for Iran to find other sources of commerce. In their current form, the U.S. economic sanctions are a leaky barricade around Iran that pose more of a threat to the U.S.' credibility and diplomatic/military alliances than they do to the Iranian oil and gas industry. The U.S. government should revisit its sanctions strategy and ensure that it is properly targeting the correct part of Iran's economy. This analysis should be done in coordination with the U.S.' allies as well as those nations, such as Russia, China and North Korea who have agreed with the U.S. not to supply Iran with questionable technologies. A limited, specific economic sanctions regime that is multilaterally recognized and enforced will produce better results than the U.S. government's current porous efforts.

Chapter Four

Transforming U.S. Foreign Policy Towards Iran into a Strategy of Critical Engagement.

Section One: Introduction.

During the past two decades, successive Democratic and Republican U.S. Presidential Administrations have felt that “carrots” (diplomatic and economic incentives) have had little or no effect on persuading Iran’s government to modify its foreign policy and military intentions, thus they have resorted to using the “stick” of economic sanctions, often in a unilateral manner. The Clinton Administration raised the standards of this policy in 1996 with the implementation of the ILSA with its intentions to cripple Iran’s energy sector and set an example that Iran’s European and Asian trading partners could not ignore. The legislation banned U.S. companies from the Iranian market and threatened foreign companies that invested in Iran’s oil industry with secondary sanctions.

However, Iran’s principal trading partners were unpersuaded and unintimidated. The French government refused to acknowledge the Clinton Administration’s calls for international recognition and compliance with the U.S. sanctions against Iran, stating through its Foreign Ministry that “...the activities of French companies in Iran are entirely legal...” and that there was “...no international restriction or embargo on Iran.”¹³⁵ Foreign sponsors continued to

¹³⁵ *Journal of Commerce*, 22 May 1997. Page 3A.
<http://www.iie.com/FOCUS/SANCTION/iran2.htm> Accessed on 19 September 2000.

invest in Iran's petroleum industry and the U.S., realizing the division it was creating with its own allies, backed down from its threat of sanctioning these foreign companies. Germany's former Foreign Minister, Klaus Kinkel, commenting in 1997 on Europe's willingness to risk the wrath of the U.S. government and continue trade with Iran stated, "You cannot reproach us for following our economic interests."¹³⁶ The U.S. government failed to gather any international support for its sanctions regime but kept its embargo in place.

The European nations, finding Iran's regime and its foreign policy at times distasteful, but within acceptable Third World limits, have engaged Iran with a policy of "Critical Dialogue." This strategy, which strongly restricts Iran's ability to procure advanced conventional weapons and technologies used to make WMD, stresses the influence that international diplomacy and commerce can have in persuading Iran to moderate some of its foreign policy objectives. The European nations have noticed results from their Critical Dialogue policy with Iran, noting that after having indicted and tried members of the Iranian government *in absentia* and matching this effort by temporarily withdrawing their ambassadors from Tehran, that Iranian acts of terrorism have stopped being performed in Europe.

¹³⁶ Shirley, Edward G. "The Iranian-American Confrontation." *The Wall Street Journal Interactive Edition*, 23 May 1997. Page 1. <http://usaengage.org/news/970523wsj.html> Accessed on 5 October 2000.

The U.S. efforts have proven to be less effective. The Iranian government has not changed its foreign policy as a result of the sanctions, preferring to act in its own national best interest. The Iranian people have learned to live with the effects of the sanctions and suffer more from the effects of their own government's mishandling of the economy and high population growth rates than from the U.S. embargo. In maintaining its sanctions, the U.S. government has yet to come up with the suitable artillery with which to punish the Iranian government.

A mid-course policy adjustment regarding Iran is necessary to maintain the viability of the U.S. government's overall Persian Gulf stability policy and to secure U.S. interests, both in the Middle East and in Europe. The lens by which the U.S. government views Iran must remain focused on security issues but must be fine-tuned to acknowledge the disappointing results achieved through a lack of diplomatic and cultural dialogue with Iran as well as the U.S.' unilateral ban on economic ties and investments in Iran.

As experience has shown through the successes gained by the Critical Dialogue policy and the lack of results obtained through the U.S.' unilateral economic sanctions, a more effective way to engage the Iranian government is with a combination of both "carrots" and "sticks." The U.S. government, in seeking a more successful way to influence the Iranian government, should recognize that some of its sanctions must stay in place, principally those that

focus on Iran's of WMD intentions. However, some of its sanctions and policies should be amended to better commercially engage Iran, much in the way that the U.S. government has done with former adversaries such as China and Vietnam. These modifications to the U.S. government's current policy towards Iran will seek to "Critically Engage" the Iranian government through backing away from harsh rhetoric, rewarding moderation and eventually seeking an official dialogue between the two governments. Like its European allies', this policy will seek to influence Iranian foreign policy by relying on the weight of a healthy, industrialized economy to promote political, economic and social change in Iran but differs from Europe's strategy in that it is starting from a state of hostility and must be carefully implemented. Its success relies on a matched policy of dialogue from the Iranian government.

What follows is a discussion of the specific policy modifications required to implement a strategy of Critical Engagement. These initiatives are organized into two sections and allow the U.S to be flexible in areas where it can afford to, while continuing to pressure, through sanctions and other means, areas of strategic concern. The first group of U.S. policy recommendations are unilateral actions that the U.S. government can undertake quickly to show the Iranian government and the rest of the world its resolve to reduce tensions with Iran and signal its support for the Iranian people. These policy propositions will cost the U.S government very little, both in economic and political terms, and would go

far to further U.S. interests. The second collection of policy modifications are designed to narrow the sanctions regime to specifically address issues relating to Iran's pursuit of a nuclear power generation program, its WMD agenda and its procurement of advanced conventional weapons. These proposals may be far-reaching but will stand a greater chance of gaining multilateral support, thereby being more effective, especially since they specifically target concerns held by both the U.S. government and its European allies. Addressed last is a proposed format for initial discussions between U.S. and Iranian officials and suggested agenda of talking points for these conversations.

Section Two: Initial U.S. Foreign Policy Modifications.

Small, calculated modifications in the current U.S. strategy regarding influencing change in Iran's foreign policy should focus on efforts that initially are symbolic but that later swell into adjustments that begin to have an effect on lives of Iranian citizens. These steps will demonstrate to the Iranian people that the U.S. government is serious about creating dialogue between the two nations. A significant change in the U.S.' policy would also place the onus on the Iranian government to match the U.S.' momentum for increased dialogue or risk being viewed as the primary obstacle to enhanced relations.

First, "chance encounters" between elected officials and dignitaries, such as the 31 August 2000 meeting of a group of U.S. Senators and a delegation of Iranian *Majlis* representatives, including the speaker of the parliament, during a

reception at New York's Metropolitan Museum of Art, should continue.¹³⁷ This can include other U.N. supported meetings, such as the eight-nation conference on Afghanistan held on 15 September 2000 where the U.S. Secretary of State and Iranian Foreign Minister sat at the same table throughout the discussion. These types of meetings between representatives from both nations' governments, while not substantive in changing each nation's policies regarding each other, do add to the leader's ability to better understand their counterparts' point of view as well as to build social ties.

Second, much in the same manner that President Khatami addressed the American people by means of a televised CNN interview, the U.S. President should address the Iranian people, either by means of an interview with Iranian media sources or through the Persian service of the Voice of America. In doing this, the President can display the U.S. government's indirect support for the moderates in the Iranian government and call for increased contacts between the citizens of the U.S. and Iran and their elected representatives. He should also reiterate the fact that the U.S. supports the sovereignty and territorial integrity of Iran and is not seeking to overthrow the Iranian government. The President should also reiterate the fact that the U.S. has no animosity towards Islam. Other U.S. government officials should repeat this message to the large Iranian

¹³⁷ Associated Press. "Meetings between Iranian and American Lawmakers Should Continue." 5 September 2000.

expatriate community living in the U.S. and other organizations concerned with business and stability in the Middle East.

Third, in discussions or comments about Iran, U.S. government officials should refrain from references to Iran as a “rogue” or “renegade” state. These terms suggest no interest in stimulating dialogue between the two nations. Additionally, references to the “behavior” of Iran’s government should stop. This term connotes images of dogs and children, not sovereign nations. Members of the U.S. government should discuss the “policies” and “actions” of the Iranian government. Lastly, U.S. officials should refer to the “excellent relations between the two peoples” and to Iran’s great civilization. Such language will make a great impression on a people who are proud of their rich culture and heritage.¹³⁸

Fourth, the US government should energetically continue The Hague talks, which since 1981 have resolved all but 16 of over 3800 commercial claims and all but 17 of 107 government-to-government claims remaining from the interruption of business contracts that was created by the Islamic Revolution, the Hostage Crisis and the resulting break in diplomatic and commercial relations.¹³⁹ These negotiations have been positive in character and demonstrate to both

¹³⁸ Hamilton, Lee H. “Reassessing U.S. Policy Toward Iran.” Remarks to the Council on Foreign Relations, 15 April 1998. Page 7. http://www.foreignrelations.org/public/pubs/hamilton_54.html Accessed on 20 June 2000.

¹³⁹ Ibid., Page 10.

government officials and the public that the two governments can work together and find solutions to their mutual challenges.

The Hague discussions also serve as a model for future government-to-government discussions and show the importance of sending official government representatives to openly declared meetings. While in the best interests of both nations to improve relations, using negotiators with other intentions, such as both sides did during the Iran-Contra Affair, has proven destructive. Clear, political support must be given to all officials that begin discussions on behalf of their governments.

Fifth, the U.S. government should change the immigration/customs entry procedures for Iranian citizens. Currently, Iranian citizens are fingerprinted and photographed by U.S. immigration officials before being allowed to enter the U.S. This procedure is humiliating to Iranian students and visitors to the U.S., and, by treating them as criminals, it contradicts any effort to signal a willingness to improve U.S.-Iranian relations. While necessary precautions should be made in respect to security conditions, such as background checks, U.S. immigration officials and policy should treat Iranian visitors to the U.S. as any other guest.

Sixth, the U.S. government should take up President Khatami's offer to increase unofficial exchanges as a step toward restoring civil discourse between the U.S. and Iranian governments. The success in exchanging soccer and wrestling teams has proven that much can be gained if former policymakers,

professors, journalists, scientists, artists, writers and representatives of non-profit organizations meet and discuss subjects of mutual interest. These encounters would prove to be critical in breaking down misconceptions and prejudices that could harm future government-to-government discussions. The discussions can focus on practical, current issues, such as the medical impact of chemical warfare (a subject that scares U.S. health officials and one that Iranians have plenty of experience with) and the role of religion in public life.

To advance this cause, the U.S. government should offer to send a representative from the U.S. Information Agency to the Swiss Embassy in Tehran to further promote cultural, academic and sports related exchange programs. Also, if permitted by the Iranian government, the U.S. State Department should station a consular officer in the Swiss Embassy who would facilitate the lengthy process that Iranians undertake to obtain a visa to enter the U.S. Such acts would not constitute the resumption of diplomatic relations but would set the stage for an increase in understanding between the citizens of the two nations.

Seventh, the U.S. Congress should increase its funding of the Persian service of Radio Free Europe/Radio Liberty (RFE/RL), which began focusing a portion of its broadcast towards Iran in 1998. RFE/RL is a nongovernmental organization funded wholly by the U.S. government and has designed its Persian programming, not to replicate the Voice of America, which editorializes U.S. policy, but to offer the type of media dialogue Iranians would have if there were

no government censorship.¹⁴⁰ Drawing from media sources in Europe, RFE/RL takes no sides in Iran's factional battles and includes both political and cultural broadcast. Currently, daily RFE/RL Persian service lasts for only two hours, but increased funding would extend this important method of exposing Iran's population to factual, critical reporting outside the reach of the Iranian government's media censors.

Eighth, the U.S. government should expand its narrow definition of aviation safety equipment that U.S. companies are currently allowed to export to Iran. A broader range of spare parts, safety upgrades and relevant testing equipment for Iran's aging fleet of U.S. manufactured passenger aircraft and ground safety equipment will meet a humanitarian need as well as have a direct influence on the lives of many Iranian citizens.

Ninth, the U.S. government should modify its 1986 tariff on Iranian pistachios. While the U.S. overturned its policy regarding pistachio imports from Iran in 2000, it has not done the same with the duties that it has in place on the Iranian nuts. Currently, the tariff on Iranian pistachios is 283 percent for raw nuts and 317.89 percent for roasted ones, thus negating the ability of Iranians to sell pistachios at a fair price to U.S. consumers.¹⁴¹ While all efforts should be made

¹⁴⁰ Newton, David and Stephen Fairbanks. "Broadcasting to Iraq and Iran: Reaching Out by Radio." *Policy Watch*. The Washington Institute for Near East Policy, 15 October 1999. Pages 2-3. <http://www.washingtoninstitute.org/watch/Policywatch/policywatch1999/416.htm> Accessed on 12 September 2000.

¹⁴¹ Kemp, Page 109.

to encourage the U.S. pistachio industry and punish any nation that attempts to dump their products cheaply on the U.S. market, the intentions behind lifting the pistachio ban (relaxing some the U.S. sanctions against Iran) must be remembered.

The same is true for Iran's ability to purchase U.S. agricultural goods, particularly corn. President Clinton relaxed this aspect of the U.S. economic cordon around Iran in 1998, authorizing U.S. farmers to export agricultural commodities to Iran. However, what has been given by one hand of the U.S. government has been taken away by another. The U.S. government refuses to extend its normal export credit guarantee programs to Iran, meaning that Iran must pay cash for U.S. grain, instead of borrowing the money and paying it back slowly. This policy has meant that European and Australian agricultural exporters, who offer credit guarantees and better terms of purchase, constantly outbid their U.S. counterparts.¹⁴² All aspects of the U.S. government should synchronize their efforts of complying with the intentions of relaxing the sanctions against Iran, as directed by the U.S. President, to ensure that not only are U.S. interests represented, but that forward progress is made in U.S-Iranian relations.

¹⁴² Pelletreau, Robert H. "The Iranian Parliamentary Elections and American Policy." Remarks to the American-Iranian Council and the Iranian Trade Association, 4 February 2000. Page 3. <http://www.american-iranian.org/Pages/Pelletreau.html> Accessed on 19 September 2000.

Tenth, recognizing the important role that trade and commerce play in influencing a government's foreign policy decisions, the U.S. government should immediately license U.S. companies, especially energy firms, to resume discussions with their Iranian counterparts. This dialogue would allow U.S. companies to be better prepared to invest and support the energy markets in both Iran and the Caspian Sea, as well as other commercial markets, once the U.S. trade restrictions are lifted. Allowing U.S. companies to initiate discussions about investments in Iran's oil and gas industry, will not only reduce the clear advantage that European and Asian firms now enjoy in Iran, but will also facilitate the progress of furthering U.S.–Iranian official dialogue.

These small steps collectively will begin demonstrating to the Iranian government, as well as to the citizens of Iran that the U.S. government is willing to modify its policies and begin seriously pursuing efforts to enhance its dialogue with the Iranian government. Implementing these policies will not only lead to ending twenty years of conflict between the U.S. and Iranian governments, but also pave the way for a policy that seeks through engagement, not isolation, to begin having a positive influence on Iran's foreign policy.

Section Three: Refining the U.S. Economic Sanctions Against Iran.

As previously discussed, the unilateral sanctions imposed by the U.S. government against Iran's oil and gas industry are having only minor effects on Iran's ability to gather hard currency from the sale of its petroleum products.

Iran's economy suffers more from domestic mismanagement than it does from the economic cordon, yet continues to expand at a moderate rate. At the same time, U.S. energy companies watch as their European and Asian competitors sign contracts to invest in and expand Iran's oil and gas industry. Meanwhile, the Iranian government, annoyed but undeterred by the sanctions, still seeks technologies and manufacturing advice to further its WMD programs and realize its nuclear power generation ambitions.

Therefore, the U.S. government should reform its sanctions policy to more accurately target Iran's nuclear and WMD ambitions, while allowing Iran to grow economically closer to the U.S. by ending its barricade around Iran's oil and gas industry. The U.S. government should consult with its European allies and Japan to ensure that the restrictions placed on the companies and organizations that continue to pursue the Iranian government's WMD and nuclear ambitions are agreed upon and enforced multilaterally. Additionally, the U.S. government, along with Russia, China and the United Nations, should co-sponsor a conference that investigates the proliferation of WMD in the Middle East, and should invite all nations to attend, including Israel. A part of this discussion must also focus on the regional arms race, especially the one underway by the nations of the Persian Gulf. A clear definition of each nation's national defense needs must be made and a consensus for an acceptable force structure of conventional arms should be reached in order to maintain a balance, instead of the regional

instability created by militarily weaker and stronger nations competing against each other.

Maintaining Precise Sanctions.

The U.S. government should maintain the specific sanctions that target Iran's nuclear and WMD capabilities and the organizations that continue to support terrorism and block efforts to further the Peace Process. This should be done in a two-fold manner. First, U.S. intelligence assets could continue to aggressively monitor Iran's pursuit of these programs and, when necessary, block the transfer of technology, fissile fuel or manufacturing hardware, either by placing diplomatic pressure on the provider or by procuring the material before Iranian operatives are able to do so. In conjunction with this intelligence effort, the U.S. government should retain its ban on commerce with certain Iranian companies that manufacture and import integral parts of Iran's nuclear and WMD programs and infrastructure as well as the *bonyads*, the quasi-governmental foundations controlled by Iran's hard-line clerics.

Secondly, because Russia, China and North Korea have repeatedly demonstrated a disturbing tendency to violate commitments made to the U.S. government by transferring sensitive arms and technologies to Iran, the U.S. should emplace a sanctions regime that punishes the companies that engage in such transfers. Just as the U.S. government fights its war against illegal drugs at both ends of the spectrum, so should it fight its war against the proliferation of

nuclear technologies and WMD. Punishing both the user and the provider sends a clear message that proliferation will not be tolerated.

Retaining these restrictions will keep the U.S.' policy in line with the opinion of its European allies and Japan, that neither Iran, nor any nation in the Middle East needs more of these destabilizing assets. Gaining the support of the U.S.' allies in this endeavor is highly likely since no government wants to again view CNN reports about its dual-use equipment or technologies ending up on the wrong side in any future Gulf War.¹⁴³ Expanding the sanctions to include providers will have an effect on drying up the available sources from which Iranian government seeks to procure its nuclear and WMD capabilities from.

U.S. Investments in Iran.

The U.S. government should allow U.S. companies to invest in Iran's petroleum industry as well as other, non-nuclear and non-WMD related sectors of the Iranian economy. Not only will this strengthen the capabilities of U.S. firms to compete internationally, but also it will allow for a greater diversification of energy resources for the U.S.

However, the main reason for ending the economic blockade is for the U.S. government to begin treating Iran like it does other nations throughout the world. The U.S. government should rely on one of its primary strengths - the changing effects that the weight of the U.S. economy can have on Iran's

¹⁴³ Shirley, Page 3.

government and society. This principal has and continues to be successful in aiding the U.S. government's foreign policy objectives. The U.S. demonstrated that deterrence and détente can go hand in hand through its decades long relationship with the Soviet Union. Trade was encouraged between both nations, while both governments postured on the potential battlefields of western and central Europe. Currently, even though it holds strong reservations about many of Beijing's policies, especially those involving Taiwan and human rights, the U.S. government strongly believes that commercially engaging China will eventually lead to a freer, more moderate Chinese government. The U.S. government should reconsider the merits of continually arguing that this same principal will not work in Iran.

Increased trade and commercial ties between the U.S. and Iran would also mean greater Iranian exposure to the U.S.' culture and civilization. The hard-line clerics who rule Iran today, would begin to feel the increased societal pressures of the 69 percent of Iran's population who voted for change when they elected President Khatami. U.S. investments, when combined with the principles and customs of U.S. society, would play a powerful role in furthering cross-cultural understanding and cooperation.

The last benefit of resuming economic ties with Iran is the exchange of information resulted by the numerous U.S. trade representatives traveling through and making contacts in Iran. Through monitoring U.S.–Iranian trade agreements,

U.S. government officials could more accurately determine who the current power brokers are in Iran, crucial information as discussions of resuming an official dialogue began.

Regional Arms Control Regime.

The U.S. should take the lead in organizing and co-sponsoring a regional discussion on the proliferation of WMD in the Middle East and the defense requirements of each nation. Though complex and dauntingly difficult, the U.S. has plenty of experience as both a participant and an organizer of such events given its history of arms control negotiations with the Soviet Union and the talks established between Israel and the front line Arab states by the Madrid summit in 1991.

The regional discussion should address issues of controlling the proliferation of weapons of mass destruction and long-range missiles. The end result of such a discussion would be an agreement by each nation to openly declare such weapons, place a moratorium on procuring additional ones and eventually agreeing to destroy them. Critical to such a discussion, from the point of view of furthering U.S.-Iranian relations, would be the involvement and cooperation of Iraq, Pakistan and Israel. Iran, justifiably is threatened by Iraq's WMD program and will continue to expand its own as long as Iraq's remains unchecked. The Iranian government also supports Pakistan's nuclear project as it

views it as the only “Islamic bomb” capable of deterring Israel’s undeclared nuclear arsenal.

The U.S. should specifically address why nations in the Middle East, and specifically the Persian Gulf region, are seeking to procure WMD. If it is because of a threat from another nation, as is the case of Iran and Iraq, efforts should be undertaken on behalf of the U.S. government, but not necessarily by the U.S. government to reduce those tensions, to include means that seek to reduce Iraq’s ability to procure and manufacture WMD. Reintroducing the U.N.’s weapons inspection programs in Iraq would be a method of beginning to solve this challenge.

If nations are procuring WMD to deal with their inability to keep up in a conventional arms race, as again, is not only the case between Iran and Iraq, but also between Iran and the six nations of the GCC, then efforts should be undertaken to establish a ceiling by which nations in the region agree to arm themselves conventionally. Nations, such as Iran that currently cannot strongly defend their borders would be allowed to openly purchase conventional weapons. U.S. and Western European security concerns would rest on Iran’s inability to purchase advanced weapons from anyone but Russia and China, who would meet Iran’s needs, but not with a sufficient quality as to overshadow the modern equipped militaries of the GCC. The U.S. government, Western European nations, Russia and China would observe this act of attempting to stabilize the

security of the Persian Gulf region and jointly agree to cease offering arms deals which fuel the race.

While these proposals are far-reaching and will take years in establishing the intricate details, smaller arms control steps such as establishing hot lines, openly declaring military exercises and implementing discussions regarding mutual defense needs and force structures will prove useful in the short-term. Though arms control talks have little chance of resolving basic political issues between nations, they will go a long way to help moderate and stabilize confrontations and prevent unintended crises.

These proposed modifications in U.S. foreign policy regarding Iran – refining sanctions to specifically target Iran's nuclear and WMD ambitions, opening Iran to U.S. investments and sponsoring a regional discussion on arms control – are larger in scope than the initial unilateral actions in Section Two. Crucial to their success is the requirement for the U.S. government to not only draw a consensus of approval from within itself to execute these changes, but also to gain the approval and matching implementation agreements of all other involved nations. These initiatives will build a system of trust and cooperation between the governments of the U.S. and Iran and pave the way for official dialogue.

Section Four: Increasing Dialogue Between the Governments of the U.S. and Iran.

Official communications between the governments of the U.S. and Iran are not unusual. Both governments have legal teams at the U.S.–Iran Claims Tribunal in The Hague, who have, since 1981, regularly met and resolved nearly 4000 contractual claims between the two nations and various companies and individuals. The complexity of international law and its relevance to the claims has proven that the two sides can work in a civilized manner without allowing too many political clouds to overshadow their quest for fairness. The U.S. government could use its contacts at the Tribunal to express its interest to the Iranian government that it seeks a wider range of official exchanges.

Additionally, since the break in diplomatic relations in 1980, messages between the two governments have been successfully sent by means of Switzerland's embassy in Tehran. Additional third countries that are friendly to both nations might serve as further interlocutors. Saudi Arabia, for example, is in an excellent position to facilitate further communication between the U.S. and Iran, as it is a regional leader that has an excellent relationship with the U.S. and is rapidly nurturing one with Iran.

If the U.S. government senses that the Iranian government is willing and has enough domestic support, it should consider using any of these resources to facilitate its willingness to establish a series of low-level, yet official contacts

between the two governments. Two series of meetings should be considered. The first would only establish the details of the latter series. The objective of these meetings would be to establish an agreed upon agenda, format, time and location for the next sequence of contacts. The next series of meetings would be more substantive, as the details of the agenda were discussed and negotiated. The goal of these meetings would be the resumption of diplomatic relations between the U.S. and Iranian governments. These could take the form of establishing interest sections in each capital, periodic exchanges at the ambassadorial level at the United Nations in New York or exchanging ambassadors with fully staffed embassies and resuming normal diplomatic relations. Both governments would probably still have a majority of their grievances, but also a healthier, more stabilizing method of expressing them. Friendly relations would not necessarily accompany this outcome, but rather than using the media to express their views, both nations would benefit by having direct lines of communication through which further issues could be discussed and resolved.

As mentioned earlier, both sides should send only officially recognized members of their governments to these meetings, given the history of both governments knowingly and unknowingly sending self-appointed spokespersons that have pursued their own agendas and advancements. Both nations must use professional diplomats and not self-interested amateurs. A third-nation proxy, preferably Switzerland or Saudi Arabia, should facilitate these initial meetings,

much in the manner that the Oslo talks were held between the Israeli government and the Palestinians. Additionally, these initial meetings should be conducted quietly but not held in secret. History has shown that covert meetings between the U.S. and Iranian governments have only resulted in embarrassment, not success.

The second series of meetings, those that will address the outstanding issues between the two governments in hopes of coming to enough of an understanding that diplomatic relations can be resumed, must have an agreed upon agenda. Effective conversation between both sides is paramount, some items should be discussed and some should be kept until later, if not completely ignored. Therefore the following five approaches are proposed as issues to avoid.

1. The rehashing of history. Many discussions of Middle East issues begin and are sidetracked with endless and fruitless arguments of the past. Events cannot be changed, nor is it practical to assume that different views of history and culture can be resolved. As long as either government seeks to rehash the past, both nations are condemned to repeat it.¹⁴⁴ Negotiators and decision makers know the shared, failed history only too well and must focus on the current issues.
2. Oversimplifying the issues. The Iranian government has set as a condition of better relations the release of frozen assets held by the U.S. The Hague Tribunal should be allowed to follow its natural course and use international law as its standard, not time.
3. Contentious analogies. Bringing up the fact that the U.S. criticizes Iran for its human rights violations yet does nothing about Israel's is a double standard. While this is true, its continued repetition does little

¹⁴⁴ Cordesman. "The U.S. and Iran: Options for Cooperation." Page 2.

to further an understanding between the U.S. and Iranian governments. The focus should remain on U.S.–Iranian relations.

4. Justification of Iran’s policies. Iran’s policies, both internal and external, may seem fully justified from the perspective of Tehran. The U.S. does not share that perspective; time is wasted trying to defend actions considered detrimental to broader U.S. interests.
5. Denial of Iranian actions. Efforts to deny the Iranian role or responsibility are likely to fall on deaf ears. The U.S. government is confident in its intelligence information and firm in its conviction that elements from Iran – whether official or not – have been involved in supporting acts of terrorism and seeking to expand Iran’s WMD program.¹⁴⁵

There are, however, a wide variety of positive issues that exist that would not only further the goal of the second series of meetings but also create a better understanding of the interests of the two nations. Important among them are a number of strategic issues that Iran and the U.S. often find themselves in mutual agreement about. Therefore, the following four constructive elements are proposed for inclusion on the agenda of U.S.–Iranian discussions:

1. The Hague Tribunal. It is worthwhile to remind both government officials and the public of the positive attitudes and accomplishments of the negotiations on claims held by both nations.
2. Iran’s strategic location. Given the hostility of Iraq and U.S. interests and commitments in the Persian Gulf, it makes sense in strategic terms for the U.S. to improve relations with the nation that occupies the eastern shore of the Gulf.
3. The U.S. government’s respect for Iran’s sovereignty. The U.S. reveres Iran’s territorial integrity and appreciates its religion, culture, institutions and history.¹⁴⁶

¹⁴⁵ Amirahmadi and Hooglund, Page 62.

¹⁴⁶ Ibid.

4. Shared strategic interest.
 - a. Energy. For economic and stability reasons, the U.S. and Iran share common views on the continued production and export of oil and gas from the Persian Gulf region on a stable basis determined by market prices as well as increases in production through the exploitation of new reserves and enhanced recovery.
 - b. The Caspian Sea, Turkey and Central Asia. Both the U.S. and Iran have a strategic interest in the stable development of the Caspian basin, Turkey and Central Asia and avoiding an over-dependence on Russia. Developing routes for extracting the energy sources from this area that are not under Russia's influence is critical as well.
 - c. Iraq. As long as Iraq's authoritarian and aggressive regime remains in power, both the U.S. and Iran share a common interest in the military containment of Iraq and preventing Iraq from expanding its WMD program.
 - d. Iranian Security. The U.S. has every interest in keeping Iran strong enough to avoid the risk of a re-birth of the Iran-Iraq conflict. It is also in the U.S.' interest to allow Iran to rebuild its conventional military in order to decrease its reliance on WMD.
 - e. Afghanistan. Both the U.S. and Iran share a mutual interest in the development of a stable, non-extremist Afghanistan that respects the interest of its different sects and ethnic groups. Critical also are the approximately two million Afghan refugees in Iran.
 - f. Arms Control and Proliferation. The U.S. and Iran share a concern over the emergence of a security structure in the Middle East and Persian Gulf region that is steadily growing more dependent on long-range missiles and WMD. This concern also seeks to replace competition of conventional force structures with a viable arms control agreement.¹⁴⁷

¹⁴⁷ Cordesman. "The U.S. and Iran: Options for Cooperation." Pages 3-5.

Both the U.S. and Iranian governments will have to work very hard to reach this level of dialogue. However, the incentive for initiating official contacts between both nations lies in the understanding achieved by each government of the other's strategic goals and interests. Agreement and joint action on issues of common concern is important and should be sought. However, through means of dialogue and improved government-to-government relations, discovering more effective and stable methods of disagreeing on matters where the two governments hold different points of view is of equal value and in the best interest of both the U.S. and Iranian governments.

Section Five: Summary.

The lack of success of the U.S. government's current policy towards Iran warrants a study to seek more effective methods of influencing the policies of the Iranian government. U.S. attempts to cripple Iran's oil and gas industry while isolating its government have been foiled by the U.S.' closest allies. These same governments benefit by not only increasing their trade levels with Iran's large and growing population but also through having clear lines of communications between Tehran and their own capitals. U.S. allies freely express their concerns to the Iranian government, who, in turn, has reacted, realizing the economic and political consequences of some of its actions.

By transforming its policy towards Iran into one that attempts to engage the Iranian government through greater economic ties and eventual diplomatic

relations, while maintaining strict pressure on Iran's more inflammatory practices, the U.S. government will wield a greater amount of influence. Such a modification will demonstrate that the U.S. government is willing to treat Iran like it does other former adversarial nations and entrust the far-reaching effects of the U.S. economy to slowly bring about change in Iran.

Engaging the Iranian government and not attempting to isolate it will result in three objectives. First, reduced tensions between the U.S. and Iran will create more stability in the Persian Gulf region. Second, the U.S.' policy modifications will work in tandem with the strategy of its European allies, allowing for more cooperation and a broader range of "carrots" and "sticks" to influence Iran with. And third, the U.S. and Iranian governments will be better equipped to coordinate their efforts to resolve issues of mutual strategic concern.

U.S. foreign policy cannot be changed overnight. It can be modified, however, in incremental steps that focus on short and long-range adjustments and goals. Relatively quick actions for the U.S. government to undertake are those that align all of the U.S.' policies to support its foreign policy with Iran, such as extending agriculture related export credit guarantees to Iranian importers and lowering the tariff on Iranian pistachios. These can be followed by measures that expand the list of spare parts available for Iran's aging commercial airline fleet and promote a greater number of exchanges between U.S. and Iranian education, sports and cultural organizations.

These efforts will lead to the refinement of the U.S. economic sanctions to more accurately punish what the U.S. government is trying to oppose – Iran’s pursuit of nuclear technology and WMD. In doing so, U.S. energy companies will be allowed to invest in Iran’s oil and gas industry, regaining their influence in the Persian Gulf and the Caspian Sea.

Finally, through careful consultations and with the assistance of a mutually agreed upon third party, the U.S. and Iranian governments can begin a series of official dialogues that seek to highlight the mutual interests of both nations and pave the path to eventually establishing correct relations between the U.S. and Iranian governments.

A graduated sequence of precise policy initiatives and modifications that seek to demonstrate the U.S. government’s resolve to engage the Iranian government will improve the U.S.’ prospects of defusing regional tensions and join its allies’ efforts to influence Iran’s policies through the use of “carrots” and “sticks.”

Conclusion.

The U.S. government's foreign policy regarding Iran is based on a perceived threat. Stating Iran's pursuit of weapons of mass destruction, its support for terrorism and its opposition to the Israeli-Palestinian Peace Process as current or potential acts that seek to jeopardize the U.S.' national interest and the security of its regional allies, the U.S. has been harsh to react. Maintaining its severance of diplomatic relations with the government of Iran, attempting to block Iran's acquisition of WMD and conventional arms technologies and implementing a broad regime of economic sanctions have been the U.S. government's reaction to a nation that it has regarded as "the most dangerous country in the world."

Iran's alleged threatening policies and actions led the U.S. government to level the stiffest and most complete economic blockade of another nation. Not only cutting off all economic ties between the U.S. and Iran and preventing its own companies from investing in Iran's oil industry, the U.S. also threatened to impose secondary sanctions on any international company that supported Iran's energy sector. The U.S. also sought to pressure other nations to stop the transfer of dual-use and other technologies destined to improve and expand Iran's WMD and conventional arms arsenals.

However, success in punishing the Iranian government would only come if the U.S. gathered a wide range of international support to enforce its economic blockade. The U.S. government failed to achieve this consensus, leaving large holes in its sanctions regime which have been exploited by some of the U.S.' closest allies. The U.S. has been successful in pressuring other nations to discontinue their support for Iran's military industries but not in its endeavors to penalize the Iranian government through its attempts to isolate the Iranian oil industry.

Despite these policies, there has been a thaw in U.S.-Iranian relations. In response to the 1997 election of Iran's President Khatami and his denouncement of terrorism and acceptance of the Peace Process, the U.S. government began relaxing some of its economic sanctions. The U.S. now allows exports of its agricultural products, medicines and civilian airline equipment to Iran and also allows Iran to export its handmade carpets, pistachios and dried fruit to the U.S. Sports teams and other non-governmental organizations exchange members in a joint attempt to expand contacts between citizens of both the U.S. and Iran.

Iran continues, under President Khatami, to expand its WMD destruction and long-range missile programs, but for different reasons than the U.S. claims. Still suffering from the material losses it incurred during the Iran-Iraq War, the Iranian government is actively trying to provide for its national defense. It has chosen WMD rather than conventional weapons because of their relatively low

cost and their ability to deter other nations who possess WMD in the region and counter the U.S.' ability to quickly muster a modern, conventional force in the Persian Gulf. Iran's WMD program, and especially its desire to gain access to nuclear technologies, remains the U.S.' primary concern regarding Iran's foreign policy.

The U.S. government relies on the influence of its large economy when considering its foreign and economic policies towards former adversarial nations. The U.S. currently uses this strategy in China, Russia and Vietnam, knowing that through improved economic and diplomatic ties, that it will have a greater chance of promoting political, economic and social change. However, the U.S. government has done just the opposite in its policy regarding Iran; seeking to isolate the Islamic Republic rather than engage it. This strategy has failed, leaving the U.S. alone with its unilateral actions, rather than joining its allies in their attempts to create a dialogue with the Iranian government.

Therefore, the U.S. government must rethink its current Iran policy and consider new methods of refining it. In forming and executing precise policy initiatives that continue to safeguard U.S. national interests, such as continuing to build an international concurrence to block Iran's nuclear and other WMD strategies major, rather than relying on its unilateral efforts to blockade Iran, the U.S. government will be in a better position to achieve its foreign policy objectives. A strategy that seeks to critically engage the Iranian government by

expanding the economic ties between the two nations will not only align the U.S. government's policy with those of its European allies, thus setting the stage for increased multilateral cooperation and enforcement, but it will eventually lead to an official dialogue between the U.S. and Iranian governments, something that has been amiss for too long.

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